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U.S.-SOVIET RELATIONS: NEW PROMISE OR PERIL

REPORT

OF A

STAFF STUDY MISSION TO
THE SOVIET UNION AND
THE UNITED KINGDOM

SUBMITTED TO THE

COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

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FOREWORD

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC, June 19, 1985.

This report has been prepared for the Committee on Foreign Affairs by staff members Robert T. Huber, George R. Berdes, and Ivo J. Spalatin who undertook a staff study mission to the Soviet Union and the United Kingdom from May 19 through May 24, 1985.

The observations in this report are those of the staff study mission and do not necessarily reflect the views of the members of the Committee on Foreign Affairs.

DANTE B. FASCELL, *Chairman.*

LETTER OF TRANSMITTAL

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC, June 19, 1985.

Hon. DANTE B. FASCELL,
Chairman, Committee on Foreign Affairs, U.S. House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: Transmitted herewith is a report of a staff study mission which went to the Soviet Union and the United Kingdom to examine the current status of U.S.-Soviet relations and European perceptions of the President's Strategic Defense Initiative proposal. The study mission focused primarily on the status of arms control negotiations, the current leadership situation in the Soviet Union, regional issues affecting U.S.-Soviet relations, internal Soviet political developments, U.S.-Soviet trade and technology issues, and the status of other bilateral relations including cultural exchange and consular issues. European views on the status of the Geneva negotiations and the implications of the Strategic Defense Initiative for those negotiations were also reviewed by the study mission.

The undersigned would like to express their thanks and appreciation for the assistance, cooperation, and hospitality extended during the course of the study mission.

ROBERT T. HUBER,
Staff Consultant.
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Staff Director, Subcommittee on Arms Control, International Security and Science.

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INTRODUCTION

The recent renewal of arms control negotiations with the Soviet Union has brought about renewed interest in the future direction of U.S.-Soviet relations. Policy options regarding political, economic, and security relations with the Soviet Union are being seriously reviewed in the Executive branch and by the Committee on Foreign Affairs as the principal committee of jurisdiction in the House of Representatives.

The purpose of this report is to provide a comprehensive review of U.S.-Soviet relations, thereby providing accurate information on how the future direction of relations can or is likely to proceed. The issues reviewed in this report are: (1) the status of arms control negotiations, prospects for breaking the stalemate, possible tradeoffs, European views of the negotiations and verification issues; (2) the current leadership situation in the Soviet Union, political maneuvering within the leadership, and possible future direction of Soviet policy toward the United States; (3) regional issues such as Afghanistan, Poland, and the Middle East that impact on U.S.-Soviet relations; (4) internal political developments in the Soviet Union, including human rights abuses, and the prospects for economic reform; (5) U.S.-Soviet trade and technology transfer issues; and (6) status of U.S.-Soviet relations generally including cultural exchange programs, the establishment of new consulates, and other issues.

The views expressed in this report are not those of any of the members of the Committee on Foreign Affairs. In preparing this report, the study mission held extensive meetings with Soviet officials in the Ministry of Foreign Affairs and Ministry of Defense, as well as foreign policy experts in several institutes of the U.S.S.R. Academy of Sciences. Many of the views expressed in this report are those of Soviet officials. However, the study mission also held extensive meetings with U.S. Embassy officials, as well as American press correspondents who also provided important insights.

From these meetings and other information obtained, the study mission makes the following observations:

OBSERVATIONS

Arms Control

The Soviet position concerning the Strategic Defense Initiative (SDI) remains rigid and dogmatic, thereby casting doubt on prospects for progress at the Geneva arms control negotiations. It calls for the renunciation of SDI in all its phases, including research, and for inextricable linkage between the space, strategic, and theater aspects of the Geneva talks which requires agreement in all three groups before agreement on one of these aspects is possible;

The Soviet position on SDI involves a semantic exercise which reflects their discomfort and uncertainty with SDI's implications. The research phase of SDI is regarded by Soviet officials as a misnomer for the development phase of a strategic defense program. Further, they assert that upcoming sub-component testing would be a likely violation of Article 5 of the ABM Treaty, which prohibits development testing of an ABM system in excess of the one ABM site permitted by the Treaty. As such, the Soviets claim a ban on SDI is feasible and verifiable since the program is beyond the stage of unverifiable laboratory research;

Soviet officials reject the U.S. characterization of SDI as a research program, pointing to massive investment which will be difficult to stop once initiated. They deny that the Soviet Union has gone beyond laboratory research on strategic defense, and argue that it is politically committed to going no further and to stopping the weaponization of space;

Soviet officials also stress that SDI undermines the possibility of reductions in offensive systems because it is in those systems that countermeasures to SDI are most effective and economically feasible and will therefore likely occur. These officials also stress that the Soviet economic base is far more limited than that of the United States and the lack of Soviet technological capability to develop their own SDI program dictates offensive, not defensive, countermeasures;

While expressing differences of opinion about the feasibility of SDI, Soviet officials argue they cannot afford to risk letting U.S. efforts go forward without responding. In that connection, they profess their early readiness to commit all available national resources to counteract SDI. Accordingly, they predict a worst-case scenario of Soviet and American offensive and defensive deployments, which will undermine stability and security on both sides;

This worst-case scenario is contrasted by Soviet officials with the strategic stability they see assured by compliance with the Anti-Ballistic Missile (ABM) Treaty which assures deterrence through the lack of strategic defenses on both sides. SDI replaces this notion of deterrence and is regarded as a pre-atomic concept of homeland defense, not in keeping with modern realities. The com-

mitment of both sides to the unconditional continuation of the ABM Treaty is seen as the bare minimum for progress in the Geneva talks;

While continuing to claim that the Krasnoyarsk radar is a space tracking radar and therefore not a violation of the ABM Treaty, Soviet officials state that they had provided additional information in response to U.S. concerns raised about the radar at the Standing Consultative Commission. This information could not be obtained. Soviet officials claim that there are many questionable American activities regarding past arms control agreements and that these questions should be resolved privately through the SCC and not become a pattern of public accusations of non-compliance;

U.S. concerns over Soviet arms control compliance are brushed aside as reflective of American domestic politics. Resolution of compliance concerns by both sides are ultimately dependent upon improved bilateral relations;

Soviet officials argue that the SDI contradicts even the American definitions of strategic stability outlined in the Scowcroft Commission report because of SDI's vulnerability to countermeasures and the potential for breakthrough and advantage that exists for the side that develops an effective SDI in tandem with highly accurate offensive forces. These officials reject American intentions about the "defensive" nature of SDI, citing U.S. Air Force publications calling for the destruction of Soviet land-based missile and bomber forces and the range of new strategic offensive systems proposed by the Reagan administration;

Arguments about extensive Soviet activity in the field of strategic defense are dismissed by Soviet officials through citing comments by Administration officials and SDI proponents which have pointed to American technological superiority in this field. While admitting that the Soviet Union once embraced strategic defense concepts in the 1960s, these officials aruge that the balance of forces has moved from U.S. nuclear superiority to nuclear parity. They further contend that the SDI is a space-based system designed to develop strike weapons while the current Soviet ABM system is land-based and has no such capability;

Soviet officials deny any "moral basis" for SDI, pointing out that Administration officials have argued for a reserve of offensive weapons even as the basis of deterrence is being shifted from mutually assured destruction. This reserve, when combined with the intense commitment to SDI, is seen as an American quest for first-strike superiority. That fact, they argue, would result in a dangerous reduction of decision-making time in a crisis because of increased technological reliance through an SDI system;

Soviet officials are reluctant to speculate on whether the U.S. SDI effort will eventually lead to a decision by the Soviet Union to abrogate or erode the ABM Treaty. However, these officials observe that such a development would only result from the pursuit of the SDI program;

Soviet officials acknowledge that Gorbachev's proposal to reduce strategic nuclear weapons by 25 percent is in essence the last Soviet negotiating position at the Strategic Arms Reduction Talks (START), which were ended by a Soviet walkout in December 1983. That proposal included a limit of 1800 strategic nuclear delivery

vehicles on each side: 1,080 multiple-warhead missiles on both sides. 600 single-warhead missiles on both sides, and 120 heavy bombers on each side. It was rejected by the United States because it did not contain specific sub-limits on land-based missiles and counted missile launchers rather than warheads. The proposal did offer reductions below SALT II limits but Soviet officials continue to insist on a "freedom to mix" within broad limits and reject efforts to restructure Soviet forces by deep cuts in land-based missiles. Such deep cuts in land-based missiles involve about 75 percent of Soviet strategic forces and are seen as favoring U.S. strategic forces which do not rely as heavily on land-based missiles;

Soviet officials also acknowledge that the past Soviet offer at the Intermediate Nuclear Forces (INF) negotiations, which were ended by a Soviet walkout in November 1983, still stands. That proposal called for 140 SS-20 intermediate missiles, a freeze on Soviet SS-20 deployments in Asia, destruction of excess Soviet SS-20's affected by an agreement and a limit on missiles and aircraft in or near Europe to 300, with no Pershing II or ground-launched cruise missiles allowed in Western Europe. That proposal was rejected by the United States because of its one-sided exclusion of Pershing II's and GLCM's and the inclusion of British and French nuclear systems in the 300 missile-aircraft ceiling;

In addition, Soviet officials show a willingness to discuss some higher ceiling, including the symbolic 572 level on INF systems but were vague about whether Pershing or GLCM deployments would be permitted in the Soviet proposal;

While Soviet officials are more forthcoming on proposals for reducing offensive weapons, all such proposals were linked to a comprehensive ban on the use of weapons from space against targets on land and antisatellite systems, including Soviet destruction of its anti-satellite system. These officials repeatedly stress the interrelationship of all three sets of negotiations. They stress that the United States acknowledged this relationship when the Geneva talks began in March 1985 but has reneged on this linkage by refusing to agree to any limits on SDI;

A decision not to dismantle a Poseidon submarine this fall thereby undermining the U.S. commitment not to undercut the SALT II agreement would be regarded by the Soviet Union as a serious breach of the mutual no-undercut policy.[1] Soviet officials see a breakout from SALT II as compounding already seriously strained U.S.-Soviet military relations. They express their full willingness to preserve SALT II but were uncertain what their reaction would be to an American rejection of the no-undercut policy. Nonetheless, they stress that one effect would be the "poisoning of the political atmosphere" for resolving past arms control compliance questions and for negotiating new limitations;

Soviet officials express the Soviet Union's willingness to renew negotiations for a comprehensive test ban (CTB) agreement. They regard weapons modernization as still possible under a CTB. However, they see weapons levels as already excessive and view more

[1] Subsequent to the observations in this report, the Reagan administration made the decision to dismantle the Poseidon submarine and continue the SALT no-undercut policy while reserving the right to respond to possible Soviet violations of SALT II.

modernization as unnecessary. A CTB agreement, in their view, would make arms reductions much more likely. These officials also express a willingness to be more forthcoming on the issue of on-site inspection to verify a CTB agreement but did not provide details;

Soviet officials also stress that the unilateral Soviet moratorium on testing of antisatellite (ASAT) systems initiated by Andropov would continue. A complete ban on ASAT systems, including destruction of the one primitive Soviet ASAT, will be discussed by the Soviets at the Geneva negotiations;

Unconfirmed reports by various observers in Moscow speculate that Gorbachev will soon be proposing a 50 percent cut in strategic nuclear weapons. No verification of these reports could be obtained;

European Perceptions of the SDI

The potential implications of SDI for political and security relations in NATO are currently dominating security discussions in the alliance. Confusion borne of uncertainty and laced with emotions continues to exist over the parameters of the SDI program, its effect on the ABM Treaty and NATO flexible response doctrine, and the possible decoupling effects of SDI on strategic and theater nuclear weapons capability;

While there is consensus among the NATO allies for a strategic defense program that is limited to research, uncertainty persists over their own participation or over the objective of such a research program other than as a hedge against Soviet activities in this area;

Resentment is evident in some West European governments about U.S. efforts to solicit their participation in SDI research. NATO allies are uncertain about whether such participation will involve private industry or government-to-government research or what the nature of their participation will be;

The NATO allies are also expressing concern about the implications of SDI for arms control prospects. Fears are evident about an offensive-defensive arms race and the possible collapse of the Geneva talks over the fundamental shift in the nature of deterrence inherent in SDI. There is also concern that the internal political debate in Western Europe about SDI will severely damage the NATO consensus on security policy in the aftermath of the INF modernization controversy;

Internal Political Developments

Available evidence indicates that Communist Party General Secretary Mikhail Gorbachev has quickly consolidated his power and established clearcut majority support on the Politburo. The appointment of Nikolai Ryzhkov, Yegor Ligachev, and Viktor Chebrikov to the Politburo, all Gorbachev allies, indicates a strengthening of his control over economic policy, selection of Party and government personnel, and the operations of the KGB. The likely selection of Gorbachev as the chairman of the Presidium of the Su-

preme Soviet (titular President of the country) in time will produce full consolidation; [2]

Gorbachev's political style seems to have made a positive impression on ordinary Soviet citizens and reform-minded elements of the Party and government elite. His frankness about economic problems in addressing Party economic managers in April and the need for greater initiative in a public appearance in Leningrad in May reflects his attempt to enlist public opinion to reinforce pressure on the bureaucracy toward significant economic reform;

For the time being, however, reforms are only at the discussion stage. The Soviet economy continues to have difficulty, with a projected growth rate of only 2.2 percent in 1985. Beyond a discussion of a variety of possible reforms, the only tangible actions taken to date have been a reinvigoration of former General Secretary Andropov's efforts to increase work discipline and reduce corruption and alcoholism (see discussion of Soviet Economic Policy and U.S.-Soviet Trade in this report);

A clearer picture of the direction of Gorbachev's domestic and foreign policy will emerge by early next year with the convening of the 27th Party Congress. The Party Congress will formally replace about 30–50 percent of the Central Committee, which implements Party policy on domestic and foreign affairs issues laid down by a Five-Year Plan for 1986–1991. The replacement of current Council of Minister chairman Nikolai Tikhanov and State Planning Committee chairman Nikolai Baibakov, both opponents of economic reform, could indicate change in economic policy. The Party Congress will also approve a long-range Party program (the last one was written in 1961), which will outline broad Soviet domestic and foreign objectives for the remainder of the century. These unique political opportunities for Gorbachev will provide reliable indicators for the degree of change, if any, in Soviet policy;

While Gorbachev has been highly visible on foreign policy issues, including proposals for a nuclear and space weapons freeze, a 25 percent reduction in strategic nuclear weapons, and a call for foreign policy unity during the April 1985 Warsaw Pact summit meeting, most observers believe that foreign policy, for the time being, remains firmly in the hands of Foreign Minister Andrei Gromyko. These observers argue this point on evidence that (1) key foreign and defense policy advisers in the Politburo Central Committee, Foreign Ministry, and Defense Ministry have not been replaced; (2) Gromyko is the most respected of the Brezhnev generation Politburo members, is much more experienced in foreign policy than Gorbachev, and played a key role in the smooth selection of Gorbachev as General Secretary; and (3) Gromyko's style is clearly evident in the dogmatic resistance to a constructive dialogue about the Strategic Defense Initiative, which seems to indicate that uncertainty

[2] Subsequent to the observations in this report, Foreign Minister Andrei Gromyko was elected chairman of the Presidium of the Supreme Soviet. Nonetheless, many observers regard this change as further consolidation of Gorbachev's power because Gromyko was replaced as Foreign Minister by Edward Shevardnadze, believed to be a close ally of Gorbachev—thereby insuring greater control for Gorbachev over foreign policy than was the case when Gromyko was foreign minister.

about SDI has led to this resistance and reinforced continuity and lack of imagination on arms control policy.[3]

Human Rights

There appears to be no indication of change in Soviet human rights abuses. While there was some slight increase in the number of refuseniks allowed to emigrate in April 1985 (166 as opposed to a 1984 average of about 75 per month), the number in May is expected to be much lower. Rising expectations arising from earlier increases in the number of Moscow refuseniks being released have been dashed. U.S. Embassy officials speculate that the failure of the first round of the Geneva arms control talks and the downturn in U.S.-Soviet relations as a result of the Soviet killing of Major Arthur Nicholson may be partially responsible;

Gorbachev's ability to improve human rights seems highly constricted by his close political association with former Party ideologist Mikhail Suslov and Andropov and the requirements of consolidating power. No long-term refuseniks or dissidents have received permission to emigrate and long-term family reunification cases remain unresolved. Arrests of those teaching Hebrew are continuing and the numbers of Jews now in prison has increased substantially;

Religious practice, which ironically developed as a result of the refusal of Sovet authorities to increase emigration, appears to be growing despite the increased crackdowns. U.S. Embassy officials estimate there are now 70–80 teachers of Hebrew in Moscow as opposed to only about five a few years ago. Religious revival among Catholics, Pentecostalists and Seventh-Day Adventists is also continuing;

The Soviet response to this revival has been further crackdowns. A small community of Pentecostalists in the city of Cheguevka in the Soviet Far East has been subjected to increased harassment. Its pastor and seven others have recently been arrested and sentenced to five-year terms in labor camp, leaving 44 children without fathers. Hunger strikes in protest of Soviet actions are continuing in the town. Similar crackdowns have occurred against Catholics in the Ukraine protesting the incorporation of the Ukrainian Catholic Church into the Russian Orthodox Church;

Treatment of dissidents is worsening. Nearly all of the members of the Soviet Helsinki Monitoring Groups are now in prison and the Moscow Helsinki Group remains disbanded. Contacts with dissident Andrei Sakharov or his wife Elena Bonner, both in internal exile in Gorky, are extremely difficult and reports about both being on a hunger strike persist. U.S. Embassy officials believe neither will ever leave Gorky. Yuri Orlov, in exile in Yakutsk, is being evicted and was recently assaulted outside his home. Anatoly Shcharansky and Anatoly Marchenko have been denied visitors for at least the remainder of 1985;

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[3] Subsequent to the observations in this report, Gromyko was named Chairman of the Presidium of the Supreme Soviet (see footnote on p. 5). While most would regard this change as a diminution of Gromyko's influence in foreign policy, he remains a full Politburo member and will thus continue to be active on foreign policy issues and may be regarded as an "elderstatesman" whose views on foreign policy will be respected.

Prison conditions are also worsening. It is estimated that in 1984 there were 8–10 deaths in Soviet labor camps as a result of beating, reductions in caloric intake, interruptions of mail and food parcels, and punishment cells. New sentences have been given to prisoners about to be released under recently enacted articles of the criminal code which allow prison administrators to extend or add new sentences for "Malicious Disobedience of the Administration of Corrective Labor Institutions";

The unofficial Soviet peace movement appears to be the least affected by human rights abuses, probably because of their contracts with peace and disarmament groups in Western Europe and the United States and the impending international youth conference for peace to be sponsored by the Soviet government this summer. Permission for Soviet peace activist Irina Kristi to leave the Soviet Union has been granted and no recent arrests have been reported;

Soviet officials also refuse to discuss human rights issues constructively with U.S. officials. The usual rationales include denying abuses, claims that all those that wish to leave have already done so, and that dissidents and refuseniks are criminals that must serve their terms are offered to explain Soviet human rights policy. Recent efforts by congressional delegations, including one led by House Speaker Thomas P. O'Neill, Jr., to discuss the matter publicly or privately with Soviet officials have to date failed to yield results in resolving long-term refusenik and dissident cases;

U.S. Embassy officials are unable to explain Soviet human rights behavior. Concerns about the effects of emigration on internal regime stability, traditional emphasis on societal control, need for access to Western trade and technology, and the status of arms control negotiations and U.S.-Soviet relations generally are the most generally cited rationales which produce an uneven but continuing pattern of abuses. Embassy officials generally believe genuine human rights improvements can only come through long-term evolution and political change, political pressure to comply with international agreements like the Helsinki Final Act, and a network of increased Western contacts and exchanges.

Soviet Economic Policy and U.S.-Soviet Trade

Gorbachev's rise to power in March 1985 has generated wide-ranging discussions within the Soviet government about possible changes in Soviet economic policy, including decentralization, reduction of planning indicators, financial incentives for increased performance, reduction of privileges, the possibility of eliminating unprofitable firms, and other changes. To date, however, these open discussions have not produced major changes in economic planning and implementation;

Several changes initiated under Andropov are being resurrected or strengthened. For example, nationwide implementation has been ordered for the system of brigade contracting in agriculture, associated with Gorbachev when he was Party Secretary for Agriculture. This system provides financial incentives to farmers who increase production. A shift of authority for planning to local enterprises from the center is the subject of experimentation in se-

lected industries. Anti-corruption, work discipline, and anti-alcoholism efforts are also being strengthened;

More far-reaching reforms, such as tolerating certain levels of unemployment, allowing prices of basic staples to rise, and privatizing the service sector, do not appear likely. Retarding the scope of economic reform are traditional fears of political instability, aggravated by the effect food price increases had in producing widespread political unrest in Poland, and the responsibility the Soviet Union has for promulating the socialist model of development;

Evidence that Gorbachev will give heavy emphasis to economic reform includes his selection of Ryzhkov to full Politburo status without having been a candidate member of the Politburo. Inherent in that decision was the apparent snubbing of Vladimir Dolgikh, a candidate member of the Politburo who would normally have been due to be appointed to the Politburo. Ryzhkov is a Gorbachev protege who will likely be given major responsibilities in industrial policy and is believed to be more reform-minded than either Dolgikh, who has responsibilities for heavy industry, or Grigori Romanov, who is the defense spokeman on the Politburo;[4]

Gorbachev's targeted interest in boosting a sagging Soviet economy is necessary in view of recent poor performance. Soviet economic growth for 1985 is only 2.2 percent. Oil production is declining as readily available production fields decline, and Soviet economic planning emphasizes conservation, better field management, and secondary recovery rather than new field exploration in eastern Siberia. Shifting to greater emphasis on alternative sources (coal, nuclear, hydroelectric, gas) will be difficult;

No major breakthroughs are anticipated in U.S.-Soviet trade. Soviet officials continue to insist that artificial American limitations have restrained the prospects for growth. Citing sanctions and other U.S. efforts, they argue that the United States is not a reliable trading partner. They also contend that U.S. grain sales to the Soviet Union represent a one-way street arrangement that has to be expanded. Accordingly, they predict that without wider Soviet access to U.S. technology trade will decline. These officials argue Soviet trade policy with the West now sees Western Europe and Japan as customers of first preference before the United States;

U.S. Embassy officials regard the recent visit by Secretary of Commerce Baldrige as an effort to maintain continuing trade consultations but also do not see any breakthrough in the scope or terms of U.S.-Soviet trade. Minor agreements were concluded to relax restrictions on Soviet fur imports to the United States in exchange for fairer treatment of U.S. companies for contract bids and the resumption of American product presentations in the Soviet Union;

At the same time, Soviet officials seem to harbor grandiose hopes about the possibilities of U.S.-Soviet economic relations. These officials cite the development of Siberia through joint ventures in coal and gas exploration, hydroelectric plant construction, machine tools, and metallurgical processing as the best candidates for U.S.-Soviet cooperative projects and trade expansion. However, the po-

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[4] As a continuation of this trend, subsequent to the observations in this report, Romanov was dropped from both the Politburo and the Central Committee Secretariat.

litical requirements demanded by the Soviets for such expansion are highly unrealistic. These include the repeal of the Jackson-Vanik amendment, U.S. trade credits, and the rejection of economic sanctions and human rights considerations in the conduct of U.S.-Soviet trade;

Soviet officials do not believe that thoroughgoing economic reform is necessary to alter the nearly 6–1 U.S. advantage in the balance of U.S.-Soviet trade ($3.2 billion in U.S. exports, $550 million in U.S. imports in 1984). They believe reform measures and a more liberal U.S. trade policy can go hand-in-hand in expanding trade.

Soviet officials seem to view improved economic trade relations with the United States as a means of improving poor political relations. At the same time, Soviet officials also contend that only the United States and the Soviet Union have the economies of scale to develop Siberia's economic possibilities. They were vague about specific proposals. Finally, Soviet officials continue to argue that U.S. sanctions and restrictions prevent trade expansion, not Soviet economic inefficiency, foreign policy opportunism, military aggression, or human rights abuses.

Other Issues in U.S.-Soviet Relations

Neither the United States nor the Soviet Union have changed their positions regarding the possibility of a summit meeting between President Reagan and General Secretary Gorbachev. Although the two sides remain favorable to such a summit, they have not resolved details about timing, location, and agenda. The May 1985 meeting between Secretary of State Shultz and Foreign Minister Gromyko did not resolve any of these issues;[5]

Soviet officials seem to place great expectations on such a summit meeting between President Reagan and General Secretary Gorbachev. They believe it may be able to resolve fundamental impasses on the Geneva negotiations, provide political momentum for the resolution of other disputes between the superpowers, and, by indirection, help to overcome internal resistance in Soviet policy-making circles to new Soviet proposals to improve U.S.-Soviet relations. While U.S. Embassy officials believe a summit might help resolve lesser issues (cultural exchange agreements, exchange of consulates, airline security for the North Pacific) they see it as unrealistic to expect a summit meeting to resolve disagreements over arms control or other major differences;

With minor exceptions, U.S. and Soviet officials appear close to agreement on a new general cultural exchange agreement. The original pact expired in 1979 and was not renewed after the Soviet invasion of Afghanistan. The remaining differences include: (1) a Soviet demand that the United States provide not only physical security but security against defection for Soviet exchange participants; (2) A Soviet demand for resumption of Aeroflot flights from New York, which were suspended after the Soviet intervention in Poland in 1981; (3) an American demand for balanced participation

[5] Subsequent to the observations in this report, the United States and the Soviet Union agreed to hold a Reagan-Gorbachev summit in Geneva on November 19 and 20, 1985.

of both social and physical scientists in academic exchanges, and adequate housing and other financial provisions for American scholars and their families visiting the Soviet Union; and (4) an American demand for reciprocal exchange of television appearances on Soviet and American television, the establishment of U.S. cultural information offices in the Soviet Union, and a guarantee on the number of American cultural performances in the Soviet Union each year;

U.S. Embassy officials believe that high-level political commitment on both sides would bring agreement. If a new cultural exchange agreement is reached, these officials see a dramatic increase in cultural, scientific and educational contacts. The prospects for other separate agreements on space, energy, science and technology, transportation, and oceanography would be enhanced;

No progress has been made on the opening of American and Soviet consulates in Kiev and New York, respectively. Soviet officials link resolution of this issue to the resumption of Aeroflot flights to the United States, while the American side seeks to resume flights for American carriers from the Soviet Union under profitable conditions. The United States has also linked the consulate issue to Soviet acceptance of new safety regulations in the North Pacific to prevent a recurrence of the KAL 007 shootdown;

As well, no progress has been made in resolving Soviet actions concerning the killing of Major Arthur Nicholson. While initial agreement was reached between the heads of the U.S. and Soviet military liaison missions in the Federal Republic of Germany and the German Democratic Republic to prohibit non-use of force in dealing with military personnel, the Soviet Union continues to insist that Nicholson was an intruder in a zone off-limits to U.S. personnel. They also claim the right to shoot-to-kill again if a similar incident occurred. Since the Soviet explanation is not consistent with the facts, it renders useless the agreement reached by the military commanders on non-use of force;

U.S. Embassy officials believe that the Soviet reneging on the non-use of force agreement resulted from the resistance of Soviet military leaders who felt it implied Soviet guilt in the Nicholson killing. They also remain resistant to any apology or compensation for Nicholson's family. In a clear attempt to distance themselves from the attitude of the Soviet military, Soviet foreign ministry officials expressed "regret" and an "understanding of the feelings and suffering of the Nicholson family" generated by the incident. Nonetheless, they seem unwilling or unable to modify Soviet intransigence which, in turn, continues to prevent tangible improvements in U.S.-Soviet relations;

The Soviet Union remains adamant in rationalizing their presence in Afghanistan. They continue to blame U.S. and Chinese "outside intervention" for their troop presence in Afghanistan, and call for a bilateral agreement between Afghanistan and Pakistan to resolve the political dispute and U.S. and Soviet guarantees of non-intervention in Afghanistan. Soviet officials note that a Marxist-Leninist regime need not be established in Afghanistan as a precondition for the withdrawal of Soviet troops and that a non-aligned government in Kabul was consistent with Soviet national interests in the region;

From the Soviet perspective, the United States and the Soviet Union have a certain convergence of interest in the Middle East, particularly with respect to the issues of arms transfers and nuclear non-proliferation. They expressed disappointment that U.S.-Soviet Middle East discussions were discontinued after only one session and believe that the Iran-Iraq war might be one issue where such discussions might be particularly constructive;

Soviet officials also argued that U.S. policy in Central America exaggerates the role played by the Soviet Union in providing military assistance to Nicaragua. In denying that Nicaragua posed a threat to the United States, they stressed that the true causes of instability were the political and economic problems endemic to the region. Nicaraguan leader Daniel Ortega, they said, "did not get what he asked for" during his recent visit to Moscow;

Soviet officials expressed the view that Poland would continue to experience economic difficulties and that it would probably never fully repay either its hard currency or ruble debt, and that Western debt repayment would take precedence over Soviet debt repayment. They stressed that the Soviet Union would not provide a "credit umbrella" for repaying Polish or other Warsaw Pact member debts but did concede $4 billion has already been provided to Poland and more would be requested. Soviet officials also believe Poland's membership in the International Monetary Fund would be a proper action but also argue U.S. sanctions against Poland undetermine its ability to improve its economic performance, increase its exports, pay its Western debt, and reestablish its creditworthiness;

Soviet economic and political relations with Eastern Europe can be expected to be difficult. Gorbachev's speech to the Warsaw Pact summit meeting and his meeting with Polish leader Wojciech Jaruzelski stressed the need for unity in foreign policy and appeared to limit the bounds of acceptable detente measures for East European states with Western Europe and the United States. Limits, or even cutbacks, on Soviet oil exports while increasing heavy machinery and consumer imports from Eastern Europe to the Soviet Union will force greater use of indigenous fuels and improved conservation of oil. These actions will likely squeeze Eastern European economic performance and could raise political tensions.

APPENDIX 1

ITINERARY OF THE HOUSE FOREIGN AFFAIRS COMMITTEE STAFF DELEGATION TO THE SOVIET UNION AND THE UNITED KINGDOM, MAY 19-24, 1985

Sunday, May 19:

2:20 p.m.—Arrive Moscow at Sheremet'evo II.

Monday, May 20:

9:00 a.m.—Embassy Briefing by Curtis W. Kamman, Deputy Chief of Mission.

11:00 a.m.—Meeting at the Institute of Economics of the World Socialist System.

Participants:

Dr. V. M. Shastitko, Deputy Director.
Dr. A. N. Bykov, Chief, Department of Economic and Scientific-Technical Relations with Developed Countries.
V. M. Zegel', Chief, International Department.
Dr. V. P. Karavayev.
S. I. Simonovskiy, Senior Researcher.

1:00 p.m.—Lunch with American Journalists at the Press Club, Novosti Press Center hosted by Jaroslav Verner, Embassy Press Attaché.

Participating journalists:

Nicholas Daniloff, U.S. News & World Report.
Gary Thatcher, Christian Science Monitor.
Celestine Bohlen, Washington Post.
Antero Pietila, Baltimore Sun.

4:00 p.m.—Meeting with Oleg Bykov, Deputy Director, World Economics and International Relations Institute (IMEMO).

Tuesday, May 21:

10:00 a.m.—Embassy Security Issues Briefing by Martin McLean, First Secretary.

11:30 a.m.—Meeting at Institute of the USA and Canada.

Participants:

Dr. Andrey A. Kokoshin, Deputy Director.
Dr. Alexey Vasil'ev, Chief, Political-Military Department.
Yuriy A. Ivanov, Section Chief, Political-Military Department.

6:30 p.m.—Ambassador's Reception at Spaso House in Honor of the U.S.-U.S.S.R. Joint Commercial Commission and U.S.-U.S.S.R. Grain Consultations.

Wednesday, May 22:

10:00 a.m.—Meeting at the Ministry of Foreign Affairs.

Participants:

Sergey P. Tarasenko, Deputy Chief, USA Dept.
Major-General Yuriy V. Lebedev, General Staff.
Alexandr Tarasov, Second Secretary, USA Dept.

1:00 p.m.—Mr. Kamman's Luncheon in Honor of the Delegation.

Participants:

Valeriy P. Sorokin, Sector Chief, USA Dept., MFA.
Vikentiy Matveev, Izvestiya Commentator.
Tom Simons, Director, EUR/SOV, Department of State.
Mark R. Parris, Political Counselor.
Martin McLean, First Secretary.
Jonathan Bemis, Control Officer.

3:30 p.m.—Embassy Human Rights Briefing by George Glass, Second Secretary.

Thursday, May 23:

5:35 p.m.—Depart Moscow via BA-711.

Friday, May 24:

11:00 a.m.—London: Roundtable Discussion with Dr. Lynn Davis, International Institute for Strategic Studies.
12:30 p.m.—Discussions with Messrs. William Harris and Hugh Neighbor, Political Section, U.S. Embassy.

APPENDIX 2

GORBACHEV SPEECH AT THE WARSAW PACT SUMMIT MEETING

Dear Comrade Jaruzelski, dear comrades, friends:

On behalf of the Soviet delegation and of all participants in this meeting, permit me first of all to express cordial gratitude for their hospitality to the leaders of the Polish United Workers' party and the Polish state. We also convey a fraternal greeting to the residents of heroic and beautiful Warsaw, to all the working people of People's Poland, wishes of success in building socialism.

An act of historic importance was performed here today in Warsaw, the city that has given the name to our alliance. The Treaty of Friendship, Cooperation, and Mutual Assistance that was signed 30 years ago was renewed. It was renewed, as Comrade Jaruzelski said, with the conviction that our alliance is vitally needed by all its members, needed to strengthen peace and the security of peoples.

Vladimir Ilich Lenin stressed: Revolution must be able to defend itself. And in the Warsaw Treaty the peoples or our countries have got a staunch defender of revolutionary gains. What has the Warsaw Treaty given to us all? It has given us the possibility of peaceful creative work. The inviolability of the borders has been reliably ensured. A stout barrier has been put in the way of the latter-day subverters of socialism, the claimants to world dominance.

History has not known another alliance like ours where relations are based on the full equality and comradely mutual assistance of sovereign states, an alliance which is in the true sense of the word an alliance of peoples, an alliance which does not threaten anybody, but is wholly devoted to the defense of peace. We build relations with the countries of the other social system on the principle of peaceful coexistence—the sole sensible basis, especially in the nuclear age.

It is with the Warsaw Treaty that the major initiatives of our countries, aimed at consolidating peace in Europe and ensuring detente, are associated. Today's meeting reaffirmed our shared readiness to continue to collectively search for ways of removing the threat of war and expanding international cooperation. We stand for making the confrontation of the two military-political alliances less acute, which would meet the interests of all peoples on earth.

It is not the Soviet Union and other socialist states that have initiated the split of Europe and the post-war world. That has been done by the creators of NATO, while our alliance was formed only six years later. Since then, we have expressed our readiness more than once to dissolve the Warsaw Treaty if NATO agrees to respond in kind. This principled position wholly stands. However, regrettably, the other side did not and does not have such an intention. On the contrary, new aggressive doctrines are being put forward there and a crash effort is being exerted to build up both nuclear and conventional arms before our eyes. This now makes us think of further strengthening the Warsaw Treaty Organization.

Mankind has been confronted with the following choice: Either it is able to rectify the unfavorable course of events or the risk of outbreak of a nuclear war will continue to grow. This risk is multiplied by U.S. military plans in space. No matter what their authors say and how they justify themselves, the essence of these plans is clear: to acquire the possibility to deal the first nuclear blow and do that with impunity. Since the United States and NATO flatly refuse to follow the example of the USSR and pledge not to be the first to use nuclear weapons, their intentions assume an especially dangerous nature.

The development of weapons for "star wars" is just beginning. However, it is already making the present-day world develop a fever and leading to the destabilization of the entire system of international relations, to even sharper political and military confrontation than at present. This should not be forgotten by both the initiators of the above provocative undertaking and by those who are being invited to share it.

We take a fundamentally different approach: not to make space into a new source of the threat of war, not to create space attack weapons, and to scrap the existing

anti-satellite systems. Simultaneously, we propose coming to terms on a radical reduction of nuclear systems and moving towards the complete elimination of nuclear weapons altogether.

Such a simple and natural move, as a freeze on nuclear potentials of both sides, prompts itself. An objection is put forward: To agree to that means to solidify the Soviet military superiority. However, first of all, there is no such superiority. We have repeatedly proved that, citing figures, and Washington has failed to disprove them a single time. And second, who said that we want to stop at a freeze? On the contrary, we insist that a drastic reduction in nuclear arms follow it.

We have already suggested that both sides reduce strategic offensive arms by one-quarter by way of an opening move. However, we would have no objections to making deeper mutual cuts. All this is possible if the arms race does not begin in space, if it is peaceful.

The Soviet Union and the Warsaw Treaty countries seek no superiority either on earth or in space. We are not striving to compete over who will build a higher nuclear fence. However, we shall prevent the military-strategic parity from being upset. This is a common and firm position of the Warsaw Treaty members. If preparations for "star wars" go on, we will have no other choice but to take response measures, including, of course, a buildup and improvement of offensive nuclear arms.

The just ended first round of Soviet-U.S. negotiations on nuclear and space arms has demonstrated that they are not plain sailing. It is clear that the negotiations can only be a success on condition that the principle of equality and identical security is observed and the accord on the objective of the negotiations and interrelated resolution of the question discussed is adhered to.

The Soviet Union, as has already been announced, unilaterally halted the deployment of intermediate-range missiles and implementation of other response measures in Europe. The moratorium went into effect as of 7 April. The world public and many sober-minded American and Western European politicians have estimated that move of ours at its true worth. We have the right to hope that Washington and the capitals of other NATO countries will be more serious and thoughtful in evaluating our initiative and, in turn, show restraint on the issue of siting of U.S. missiles in Western Europe, for mutuality on that issue would assist in directing the Geneva negotiations to the plane of practical decisions and play its role in the settlement of more complex problems.

The Warsaw Treaty has been in effect for almost one-third of a century and for the entire duration of that time it acted as an initiator of constructive ideas directed toward detente and arms limitation, toward developing European cooperation. Its growing weight in international politics has a positive effect on the general climate in the world. This is a result of collective efforts, the contribution of each fraternal country.

Comrades, on the eve of the 40th anniversary of the great victory over fascism, we once again recall the solemn oath the victors swore over the graves and ruins of World War II:

War must not recur! We remember that, we remember what the lessons of war teach us. One of the principal lessons among them is the example of cooperation of powers of the anti-Hitlerite coalition. Today we call upon all states of Europe and other continents to rise above the differences and become partners in fighting a new danger that threatens the whole mankind: the danger of nuclear extinction.

Prolonging the Warsaw Treaty, we once again express our firm conviction: war can and must be prevented through joint efforts. Such is the will of the peoples of our countries. This is where the policy of our parties and governments, all the activities of the defensive alliance of socialist states are directed.

To further cooperation of our parties and states, their stronger unity and cohesion on the principles of Marxism-Leninism and socialist internationalism!

Let the fraternal alliance of socialist countries—the Warsaw Treaty—grow stronger!

To the People's socialist Poland, to the health of Comrade Wojciech Jaruzelski and members of the Polish leadership, all participants in our meeting!

To a durable peace on earth!

Gorbachev, Jaruzelski Meet

LD270951 Moscow TASS in English 0944 GMT 27 Apr 85

[Text] Warsaw April 27 TASS—Mikhail Gorbachev, general secretary of the Central Committee of the Communist Party of the Soviet Union (CPSU), and Wojciech Jaruzelski, first secretary of the Central Committee of the Polish United Workers

Party (PUWP), chairman of the Council of Ministers of the Polish People's Republic, had a meeting here today.

The leaders of the two fraternal parties reaffirmed the CPSU's and the PUWP's principled line towards further strengthening friendship and deepening all-round cooperation between the Soviet Union and the Polish People's Republic. Mutual determination was expressed to continue to firmly stand on guard of the revolutionary gains, in close coordination with the other countries of the socialist community to struggle for relaxation of international tension and to do everything to uphold peace and security in the European Continent and throughout the world.

The historic significance of the meeting of the highest party and state figures of the Warsaw Treaty member-states, at which it was decided to extend the treaty which had given rise to the political and military alliance of the fraternal countries, was emphasised in this connection.

The immense importance of the 40th anniversary of the great victory over fascism was pointed out. It was emphasized that historical experience should serve as a warning to those reactionary circles in the West which, while reviving revanchist trends, try to question the territorial-and-political realities that have taken shape in Europe as a result of World War Two and during the post-war development.

The participants in the meeting expressed satisfaction with the dynamic development and strengthening of fraternal bonds between the USSR and the PPR and pointed out the need to consistently implement the Long-Term Program for Developing Economic, Scientific and Technological Cooperation Between the Two Countries in the Period up to the Year 2000. Special attention should be paid in this work to the production sectors that determine scientific and technical progress and ensure accelerated economic growth and, on this basis, improvements in the living standards of the working people.

APPENDIX 3

SHULTZ-GROMYKO JOINT STATEMENT INITIATING THE GENEVA ARMS CONTROL NEGOTIATIONS

JOINT STATEMENT, GENEVA, JAN. 8, 1985

As previously agreed, a meeting was held on January 7 and 8, 1985, in Geneva between George P. Shultz, U.S. Secretary of State, and Andrei A. Gromyko, Member of the Politburo of the Central Committee of the CPSU, First Deputy Chairman of the Council of Ministers of the USSR and Minister of Foreign Affairs of the USSR.

During the meeting they discussed the subject and objectives of the forthcoming U.S.-Soviet negotiations on nuclear and space arms. The sides agreed that the subject of the negotiations will be a complex of questions concerning space and nuclear arms, both strategic and intermediate-range, with all the questions considered and resolved in their interrelationship. The objective of the negotiations will be to work out effective agreements aimed at preventing an arms race in space and terminating it on Earth, at limiting and reducing nuclear arms and at strengthening strategic stability.

The negotiations will be conducted by a delegation from each side, divided into three groups. The sides believe that ultimately the forthcoming negotiations, just as efforts in general to limit and reduce arms, should lead to the complete elimination of nuclear arms everywhere.

The date of the beginning of the new negotiations and the site of these negotiations will be agreed through diplomatic channels within one month.

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99th Congress
1st Session

COMMITTEE PRINT

TWENTY-SIXTH MEETING OF THE CANADA-UNITED STATES INTERPARLIAMENTARY GROUP

May 16–19, 1985

REPORT

BY THE

CHAIRMAN

OF THE

HOUSE OF REPRESENTATIVES DELEGATION

PURSUANT TO

Public Law 42, 86th Congress

JUNE 1985

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LETTER OF TRANSMITTAL

Hon. THOMAS P. O'NEILL, Jr.,
Speaker of the House of Representatives,
Washington, DC.

DEAR MR. SPEAKER: Pursuant to Public Law 86-42, it is my honor, as chairman of the House delegation to the 26th meeting of the Canada-United States Interparliamentary Group, to submit a report of the meeting, held in Niagara-on-the-Lake, Ontario, May 16-19, 1985.

MICHAEL D. BARNES,
Chairman, House Delegation,
Canada-United States Interparliamentary Group.

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CANADA-UNITED STATES INTERPARLIAMENTARY GROUP

BACKGROUND

Public Law 86–42, adopted on June 11, 1959, authorizes U.S. participation in interparliamentary conferences with Canada. The law provides that Members of the U.S. Congress are to be appointed to meet annually with representatives of the House of Commons and the Senate of the Canadian Parliament "for discussion of common problems in the interest of relations between the United States and Canada." The meetings are held alternately in Canada and the United States.

COMPOSITION OF DELEGATIONS

UNITED STATES

Attending the meetings from the House of Representatives were: Michael D. Barnes, Maryland, Cochairman; Dante B. Fascell, Florida; Sam Gibbons, Florida; Lee H. Hamilton, Indiana; James L. Oberstar, Minnesota; John J. LaFalce, New York; Brian J. Donnelly, Massachusetts; Bill Frenzel, Minnesota; Arlan Stangeland, Minnesota; David O'B. Martin, New York; and John R. Miller, Washington.

Representing the U.S. Senate were: Ted Stevens, Alaska, cochairman; Edward Zorinsky, Nebraska, cochairman Orrin G. Hatch, Utah; Max Baucus, Montana; and Howell T. Heflin, Alabama.

CANADA

The members from the Canadian Senate were: Richard J. Stanbury, Ontario, Cochairman; Dan Hays, Alberta; Henry D. Hicks, Nova Scotia; Lowell Murray, Ontario; Nathan Nurgitz, Manitoba; Peter Stollery, Ontario; and George C. van Roggen, British Columbia.

The House of Commons was represented by Pat Nowlan, Nova Scotia, Cochairman; Iain Angus, Ontario; W.C. Attewell, Ontario; Lloyd Axworthy, Manitoba; Ross Belsher, British Columbia; Jim Caldwell, Ontario; Jean Charest, Quebec; Stan Darling, Ontario; Maurice Foster, Ontario; Sid Fraleigh, Ontario; Jim Hawkes, Alberta; Felix Holtmann, Manitoba; Pauline Jewett, British Columbia; Fred McCain, New Brunswick; Louis Plamondon, Quebec; Guy Richard, Quebec; and Barbara Sparrow, Alberta.

AGENDA

COMMITTEE I—ECONOMIC AND TRADE QUESTIONS

I. The international economic and trade situation

1. The economic outlook in the United States and Canada, including budgetary deficits, inflation rates, unemployment levels, the investment climate, trade balances, and the value of the U.S. dollar.
2. Multilateral trade developments:
   (a) trends toward protectionism;
   (b) competition in export credits.
3. Prospects for a new GATT round of negotiations to liberalize trade in agriculture, resource products, and services, etc.

II. Specific trade irritants.

1. Foreign Investment Review Agency.
2. U.S. marking regulations for imports of steel pipes and fittings.
3. U.S. investigation of Canada hog and pork imports.
4. Certain provisions of the U.S. Omnibus Trade Act of 1984.
5. Extraterritoriality.
6. Canadian fish product exports.
7. Canadian softwood lumber exports.
8. Tax on tourist literature.
9. Border broadcasting.
10. Canada's subsidized freight rates.
11. Canadian patent law relating to pharmaceuticals.
12. U.S. sugar quota.
13. Trade in beef.

COMMITTEE II—ENERGY, DEFENSE, AND MULTILATERAL QUESTIONS

I. Energy

1. Modification in Canadian policy on gas exports and impact on trade with United States.
2. Impact of proposed changes in Canadian oil and gas policies regarding retroactive "back in"; deregulation of oil prices; investment climate; outlook for bilateral energy cooperation.
3. Bilateral electricity trade.
4. Problems of access to U.S. market for uranium.

II. Defense

1. Multilateral:
   (a) arms control negotiations;
   (b) the Strategic Defense Initiative.
2. Bilateral:
   (a) modernization of NORAD;
   (b) deployment of AWACS for North American defense;
   (c) deployment in Canada of U.S. nuclear weapons;
   (d) functioning of the defense production sharing arrangement between Canada and the United States.

III. Multilateral issues (in joint session with Committee III)

The food crisis in Africa.

COMMITTEE III—FISHERIES, ENVIRONMENT, BORDER, AND MULTILATERAL ISSUES

I. Fisheries and border questions

1. East coast and west coast fisheries management questions.
2. Fishing issues between Ontario and Minnesota.
3. High seas interception of U.S. and Canadian Salmon.
4. White Pass and Yukon Railroad.
5. Raising the *Hamilton and Scourge.*

II. Environmental concerns

1. Acid rain:
   Extent of public concern in each country; prospects in Canada and the United States for corrective action; assessment of political will for remedial measures.
2. Toxic waste:
   (a) Problems of toxic waste in Niagara River and the Great Lakes;
   (b) Common concerns of toxic waste disposal.
3. Consumptive uses of water:
   A major North American supply problem by the 1990's?
4. Garrison Diversion, a status report.
5. Flathead River.

III. Multilateral issues (in joint session with Committee II)

The food crisis in Africa.

PLENARY DISCUSSION

The bilateral trade relationship

1. Possibilities for achieving fairer and freer bilateral trade.
2. The Mulroney-Reagan March trade declaration.

Committee I—Trade and Economics

The Committee on Trade and Economic Issues was co-chaired by Richard Stanbury and Sam Gibbons. Besides Senator Stanbury, other members of the Canadian delegation serving on the Committee were Senators George Van Roggen and Lowell Murray and Members of the House of Commons W.C. Attewell, Jim Caldwell, Jean Charest, Maurice Foster, Sid Fraleigh, and Felix Holtmann. In addition to Congressman Gibbons, the U.S. delegation included Representatives Dante Fascell, Lee Hamilton, John LaFalce, and Bill Frenzel, and Senators Ed Zorinsky, Max Baucus, and Howell Heflin. Other Members of the U.S. and Canadian delegations participated in specific issues discussed by Committee I.

UNITED STATES AND CANADIAN ECONOMIC CONDITIONS AND POLICIES

An American delegate commenced the discussion with a presentation on the U.S. economy. The U.S. economic growth rate has been sluggish since mid-1984. The growth in GNP has been 2.4%

during the past nine months, compared to 7% during the prior eighteen months. Unemployment has been reduced to 7.3%, but has remained at that level for the last year. The economy is creating sufficient new jobs to absorb new entrants, but not to reduce the unemployment level. Industrial production and productivity have risen moderately.

Two structural changes have appeared during the current economic upswing. There have been no new jobs created in manufacturing; in fact, the actual number of jobs in manufacturing declined during the last six months. Second, the trade deficit has spiraled and become staggering. The good news is that inflation has dropped and become stable, at 3.7% during 1984, and interest rates are declining.

A few economic forecasters are predicting a growth recession, specifically because the economy cannot keep pace with the rise in the labor force. Most forecasters, however, see continued economic growth—3.5% during 1985, 2.7% in 1986, but possibly a recession in the second half of 1986. Inflation will continue in the range of 3.7% in 1985. Unemployment will stay at the current level. Lower interest rates will keep the economy active and will permit modest growth. However, there could be a depressing effect if the government budget deficit is significantly cut. Only if interest rates are reduced further would there be the necessary stimulus for real economic growth.

There is a real policy dilemma which arises from the large federal deficit. How is slow economic growth to be countered? Not by fiscal stimulus, which would further enlarge the deficit. So the burden will rest on monetary policy, which has severe limitations.

Another American member commented that, even at 4%, inflation is too high. He anticipates a 1985 growth rate of 2.5%, whereas the House and Senate Budget Committees are assuming a 4% growth rate, meaning their budget figures are incorrect and the deficit will be larger than projected.

A Canadian delegate noted that, in contrast to prior years, invisibles no longer offset the trade deficit in the U.S. balance of payments.

A U.S. delegate explained that a consensus finally has developed in the United States that the trade deficit is a direct result of the high value for the dollar, which evolves from the huge budget deficit. In 1985, the government will borrow close to $300 billion to finance its operations, a much higher amount than the budget figures show (currently $182 billion). The U.S. Government is borrowing at a rate twice the level of U.S. savings. Funds are therefore not available for business investment A considerable amount of U.S. borrowing is overseas, which contributes to an overvalued dollar, which has the effect of taxing U.S. exports and subsidizing imports.

Several U.S. delegates explained that the Congress is currently in the throes of attempting to reduce the federal deficit through the budget process. The Senate has just adopted a budget which would freeze social security COLA's (cost-of-living adjustments for inflation) and permit defense spending to rise at the rate of inflation. The House Budget Committee is considering the reverse of that arrangement—social security would rise at the level of infla-

tion and defense spending would be frozen at the FY 1985 level. Several members expressed the view that the Congressional budget process is as realistic as the tooth fairy. It does not deal with the hard decisions which affect the budget and should be tied to reconciliation to be a serious endeavor. Further, the budget process does not address key economic issues, such as savings and productivity. The process focuses too much on macroeconomic numbers rather than the real world of microeconomics. A counterview was expressed that the budget process is in fact very useful in providing an overall view and review of the federal budget.

A U.S. member explained that there have been three "no-nos" that have stymied efforts to reduce the budget deficit: reducing social security COLAs, slowing the increase in defense spending, and raising taxes. The first two finally are being addressed in this year's budget debate; what is needed now is to confront the issue of a rise in taxes. Revenues today are only 18% of GNP, compared to 21% just several years ago. The U.S. budget problem is not an increase in spending—which has been stopped—but a decline in revenues as a percentage of GNP.

Another American expressed concern that the United States has been borrowing at a reckless rate. The dollar is overvalued because: the United States is a safe haven for investment; the United States has the highest real interest rates in the world; and, by borrowing abroad, the United States is buying its own dollars and thereby keeping the value of the dollar inflated. The only way out is difficult, through greater budget discipline—through reducing spending, raising revenues, or growth—and the growth option is being eliminated by the recent decline in the GNP growth rate.

A Canadian noted that by the end of 1985 the United States will owe more to foreigners than they owe Americans. There is net inflow of funds, some 60% of which is volatile. He wondered whether U.S. firms were using the overvalued dollar to invest overseas, and the response was "not significantly." It was suggested that the United States has yet to feel the full impact of the overvalued dollar, which will come when payments have to be made on the debt which is piling up, or it begins to be repatriated.

A member of the Canadian delegation explained the state of the Canadian economy. The recession in Canada was more severe than in the United States, and the recovery has been slower. There was a net loss of half-a-million jobs during the economic downswing, and it is only just now that they have been recovered and employment has returned to the pre-recession level. Economic growth was 4.7% in 1984 and is projected at 3.1% for 1985. Inflation is at 4%. Real business investment is at 4-4.5%, but had declined 20% during the recession. Unemployment has been steady at 11%. The real interest rate is at 5¾%, historically high but still below the U.S. level. The economy is still having to cope with the effects of the stagflation/recession. The recovery period has been characterized by business and consumers paying off debt rather than investing or spending.

Canadian Government expenditures have risen during this period. The budget deficit of the Canadian Government on a per capita basis is $1,035, compared to $920 for the U.S. Government, and is 7.8% of GNP, compared to 5.2% for the United States. The

government is attempting to reduce the level of the deficit, and to encourage growth, such as by encouraging investment through revision of the Foreign Investment Review Agency and the National Energy Policy.

The most optimistic economic scenarios are for growth at 3% and inflation at 4%, and are predicated of course on the United States succeeding in reducing its budget deficit and interest rates. There is concern in Canada over the U.S. trade deficit, the apparent growing protectionist sentiment in the United States, and the potential for such actions as the proposed import surcharge. Current Canadian productivity rates are dismal, and the performance of the Canadian economy will not sustain the current standard of living. The answer could lie in a new economic deal between the United States and Canada.

Another Canadian member noted that the budget deficit is, in fact, much more desperate in Canada than in the United States. The combined budgets of the fifty U.S. states are in balance, whereas the budgets of the eleven Canadian provinces are in substantial deficit. The deficit of the Canadian national government ($35 billion), plus that of the provinces ($20 billion), totals $55 billion, which would be the equivalent of a U.S. budget deficit of $550 billion, or three times its current size. In Canada the provincial governments have principal responsibility for social programs, although they do receive some federal funding. Servicing the national debt now costs as much as funding all social programs.

TRADE POLICY

The session on trade policy commenced with a discussion of predatory export practices. A member of the Canadian delegation said that his government was committed to the elimination of subsidized export credits, but that for the interim there was no alternative but to engage in such practices because of similar actions by other countries. An American delegate reported that the Reagan Administration has proposed a new "I MATCH" program as a substitute for direct credits by the Export Import Bank, but the proposal has been rejected by the House Committee on Banking, Finance, and Urban Affairs. Secretary of Agriculture John Block has recently announced a new government program to give U.S. grain exporters $2 billion worth of government-held grain stocks in order to make U.S. grain exports more competitive. Several Canadian delegates questioned whether this new agricultural export subsidy would not unintentionally hurt Canadian grain exports. An American member suggested that the United States, Canada, New Zealand, and Australia should establish a grain cartel, but also noted that there was little support for such a proposal in the United States.

U.S. and Canadian agricultural trade is directly affected by exchange rate movement. Flexible exchange rates result in volatility in the value of currencies. Under fixed exchange rates there is more certainty for the exporter, but it is unlikely that countries would accept a fixed exchange rate system because of the greater domestic economic discipline which is required.

An American member suggested there is need for parallel discussions at GATT and at a monetary conference. Current difficulties with the international trading system are as much monetary as trade. The economic summits focus on fiscal policy, not on monetary policy. A conference of national monetary officials should be organized in order to discuss the need for conforming the monetary policies of the industrialized countries.

Another American explained legislation he introduced establish a two-tier pricing system for agricultural products, a higher price for domestic sales and a lower price for exports. He described the policy of the current U.S. Administration as one of reducing domestic U.S. farm prices in order to make U.S. agriculture more competitive internationally. The problem is that the U.S. farmer cannot produce at a price level so low as to meet the subsidized practices of other countries.

One delegate drew the following conclusion from the discussion: competition in export credits is self-defeating; what is needed is a firm agreement terminating predatory finance practices; the OECD cannot produce a binding agreement, so maybe the issue should be referred to the GATT.

The discussion then proceeded to focus on the perception of rising protectionist sentiment and the prospects for a new GATT trade round. A U.S. delegate expressed appreciation for the cooperation which Canada has provided in proposed new trade negotiations. He said it was unfortunate that a new round received a setback at the Bonn Economic Summit because of the insistence of Prime Minister Mitterand to link a trade round with an international monetary conference. The prospect of a U.S. 1985 trade deficit of $140–150 billion is producing growing protectionist sentiments in the United States. It is anticipated that the Congress will pass protectionist legislation which likely will violate GATT rules and may result in retaliation by other countries. The Congress may pass a textile quota bill, which will violate the multi-fiber agreement. Trade traditionally has accounted for only five per cent of the U.S. gross national product; that proportion has now risen to 14% and may be headed toward 25%, so trade is an important factor in the economic prosperity of the United States.

Another American member said it was easy for the United States to propound free trade theory in the 1950's and 1960's when U.S. productivity was high, but the United States no longer has that advantage. The United States needs to develop a strategy to increase productivity, to counter the unfair subsidies and trade practices of other countries, and to engage government policies in microeconomic trends and problems, or the alternative will be rampant protectionism.

A third U.S. delegate stated that the overall objective of the United States should be free trade and avoidance of "begger-thy-neighbor" policies. The Smoot-Hawley tariff brought a dramatic reduction in world trade, contributed to the radicalization of Japan and Germany, and probably brought on the Second World War. While it may not be the prevailing perception in the Congress, trade opens hearts and minds and promotes peace. While various constituencies are pressing for protectionist legislation in order to combat foreign subsidies, the United States must continue to be-

lieve in the rule of law and work for an open trading system in which decisions are arrived at through transparency.

That same American member explained that his draft legislation, H.R. 2451, is designed to identify and define the term subsidy. Every country engages in some form of subsidy, but what the draft bill is aimed at is subsidies which bring injury. The bill is in compliance with U.S. obligations to the GATT. It is generic in nature, and is aimed at subsidies such as those found for cement, carbon black, and petroleum. For example, when Mexico sells oil cheaper within the country than for export, that would amount to an export subsidy and could be countervailed under the bill. If a resource is sold for less than fair market value and is a substantial portion of the total cost of a finished product, then, if it injures a U.S. producer, a higher tariff can be charged for importation of the product into the United States. With regard to the potential impact on Canadian softwood lumber, that would depend on the answer to the question: "Why does Canadian softwood lumber sell for a price 40% cheaper than similar American products?"

A Canadian delegate endorsed American support for a new GATT round. He noted the importance of opening up the Japanese market and of combatting trade subsidies. The principal cause of the unprecedented American trade deficit is the overvalued dollar. Trade accounts for one-third of the Canadian economy. 70% of that trade is with the United States, so U.S. trade policy is critical to the Canadian economy. It is important for Canada to move toward a free trade arrangement with the United States in order to protect the Canadian economy from potential U.S. trade policies aimed at the practices of Japan or Europe. Similarly, the United States should keep in mind Canadian interests when it is considering new legislation and when Canada is not the source of the trade problem. The importance of the U.S. economy to the world economy—and the impact on Canada of U.S. trade decisions—is an important factor in the growing Canadian interest in a free trade arrangement with the United States.

Another Canadian MP noted the importance of convincing the developing countries to participate in any new trade round . He also noted that Canada must involve its own provinces, as they are the source of some subsidies, procurement regulations, and other issues which would be considered in trade negotiations. Canada is particularly interested in items which have not been covered in prior negotiations—natural resources, agriculture, services, and high technology.

A U.S. member expressed the view that the United States is not, in fact, prepared to participate in a new GATT round, especially given the huge U.S. trade deficit. Congress is not prepared to delegate sufficient negotiating authority. In the past the Congress has set parameters for the President to negotiate tariff and non-tariff barriers and, subsequent to negotiations, he could proclaim the tariff changes and get expedited Congressional approval of legislation to implement nontariff changes. Now, however, the Congress is not prepared to grant the President the authority necessary for him to negotiate. In fact, it was more than a year after the Tokyo Round began that the Congress provided the President with the necessary authority.

Another American pointed out that the United States can commence the negotiation process before the President has the authority to negotiate. GATT operates by consensus, which takes a long time to build. It could take eight to ten years to bring a new round of negotiations to fruition, so why not start now. Financial flows (such as mixed credits) heavily affect trade movement, but they are outside the purview of the GATT. Similarly, the GATT has never covered agriculture under as strict rules as industry and does not cover services. The GATT needs to be broadened in order to deal with these important trade matters.

It was pointed out that the Congress has provided the President with specific authority for bilateral tariff negotiations which can be used with Canada, as long as neither the House Ways and Means Committee nor the Senate Finance Committee disapproves. He can submit a bilateral agreement to the Congress and under the law is assured of a vote without amendment. This authority expires January 3, 1988.

Several members noted that the value of the U.S. dollar is the principal reason for the growing protectionist sentiment in the United States. The Canadian dollar is undervalued in relation to the U.S. dollar and is overvalued in relation to European currencies. The issue is how to reduce the value of the dollar, toward which several members suggested reducing the federal budget deficit and U.S. interest rates.

It was also noted that the United States needs to increase its personal savings rate and stop borrowing abroad so heavily. Why is it that Canadians save at a higher rate than Americans—13% versus 4%. Is it part of the national character or government policies? Historically, Americans have spent more, and Canadians have saved more. The higher Canadian savings rate is likely to facilitate and help sustain its economic recovery.

SPECIFIC TRADE ISSUES

Steel

Committee I began the review of specific trade irritants with a discussion of the provision of the 1984 Trade and Tariff Act which requires that all pipes, tubes, and pipe fittings of steel or iron that are imported into the United States must be marked with the English name of the country of origin by "die stamping, molding, etching, raised lettering, or an equally permanent method of marking". This requirement has proved difficult to implement because of potential ramification such as structural damage to certain types of pipe and the need for special coatings for certain uses. Many U.S. trading partners, including Canada, have protested the measure. Implementation of the regulation has been delayed pending negotiations with Canada and other countries. Those negotiations have been proceeding well, and some necessary technical changes will be made by H.R 1800, "The Technical Corrections Act". Several members of the Canadian delegation expressed satisfaction with the American cooperation in resolving this matter and with the proposed technical amendments.

Hogs

Committee I devoted considerable attention to the increasingly contentious issue of Canadian-U.S. trade in hogs, specifically the U.S investigation of Canadian subsidization of hog production and the resulting imposition of countervailing duties, and the actions of several U.S. states to block the importation of Canadian hogs.

An American delegate opened the discussion by noting that U.S. imports of live swine from Canada had more than doubled from 1981 to 1982, had increased by 52% in 1983, and by an additional 169% during January-September 1984. U.S. farmers had cut back production in order to raise prices, and then Canadian producers took advantage of this market opening. The Administration feels that the states do not have the authority to restrict imports. The Governor of Nebraska did it on the basis of health—the state cannot accept imports with health hazards that are proscribed in the United States. The solution may be voluntary restraints. The genesis of the problem is the erratic Japanese purchase of Canadian hogs. When European hogs became diseased, Japan shifted its purchase to Canada, then turned back to Europe when the disease was eliminated; the result was that Canada was left with excess production which was then put on the U.S. market.

A Canadian member responded that the United States and Canada have enjoyed free trade in this area for over two decades and that before the two countries had always resolved differences bilaterally, not unilaterally. A decade ago the United States held 25% of the Canadian hog market, at which point there was considerable political pressure to restrict U.S. imports. However, those pressures were resisted, and eventually the market corrected itself. Furthermore, U.S. overall subsidies per farmer are higher than Canadian subsidies. Japan does use Canadian hogs to regulate the supply to its own market, so Canada has had to learn to live with a rather erratic market. However, the real reasons for the rise in exports to the United States are: value of the dollar; quality of Canadian hogs; and the proximity of Ontario suppliers to certain U.S. markets (Chicago, Pennsylvania).

Another Canadian noted that Canadian hog production supports the U.S. feed industry, on the basis of free trade. U.S./Canadian differences need to be discussed, not acted on unilaterally. There are some provincial programs that encourage the artificial production of hogs. However, most are pure stabilization programs, which are repaid when prices rise. It is doubtful that the countervailing duty investigation will be able to demonstrate injury to the U.S. producer, particularly on a national level.

The United States market absorbs 30% of Canadian hog production, but that accounts for only 3% of the total U.S. market. The countervailing duty (an ad valorem rate of 18%) can have a devastating impact on Canadian hog production. The price has dropped from $.70 to $.58 per pound.

An American delegate explained that the unilateral action by several U.S. states (Nebraska, Iowa, and South Dakota) has occurred because the influx of Canadian hogs is affecting those areas of the United States in which the depression affecting agriculture has been most severe, resulting in school closings, farm bankrupt-

cies, savings and loan institution failures, foreclosures, etc. A Canadian responded that parts of the Canadian farm economy are facing similar devastation.

An American noted that the most feasible recourse to the unilateral ban on imports by the several states is through the courts, to challenge the constitutionality of the action.

Foreign Investment Review Agency

An American member commenced the discussion on the Foreign Investment Review Agency (FIRA) by expressing the concern which the United States has had over the damage it has caused to U.S./Canadian investment relations.

A Canadian responded that the new government in Canada shares some of those concerns and has proposed a revision of FIRA. The changes include: changing the name to "Investment Canada"; giving it a mandate to encourage as well as review proposed foreign investment; raising the thresholds for review of investment proposals; providing a more rapid and simpler decision-making process; replacing the "significant benefit" test with "net benefit" and more clearly defining that term.

Another Canadian expressed concern over these legislative changes and defended the purpose and performance of FIRA. He noted that in Canada 80% of the oil and gas industry and 70% of manufacturing is owned by foreign interests; in comparison, no more than 3-5% of any specific sector of the U.S. economy is foreign owned. Foreign firms produce less well for Canada than do Canadian firms—most of the R&D is conducted elsewhere; Canadian subsidiaries often are denied worldwide markets; the financial costs to the trade balance are higher because of greater amounts of imported inputs. So, there is a relationship between ownership and performance. As to the administration of FIRA, in 1984 some $4 billion of foreign investment was permitted in Canada. 97% of all applications to FIRA were approved, and in the process 40% were "bargained up"—the benefit to Canada was enhanced. The necessary improvement in the management of FIRA and the acceleration of the review process was instituted by the former Liberal Government two years ago.

An American member responded that the proposed changes will be welcomed in the United States. FIRA did discourage considerable U.S. investment, and all that the United States is seeking is national treatment. He said that Americans will be looking to see if the review process does become transparent and if "net benefit" is given a clear meaning.

Several Canadian delegates noted that under the proposed revisions only 8% of the prior year's applications to FIRA would have been reviewed. One benefit of Investment Canada, or even of FIRA for that matter, was that it provided "one-stop shopping". In contrast, in the United States any investment proposal has to navigate through a host of agencies, and some areas of the economy are restricted to foreign investments—maybe there should be a quid pro quo from the United States for the proposed revision of FIRA into Investment Canada.

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Fish products

A Canadian member expressed concern over reports of consideration being given in the U.S. Northeast to filing a countervailing duty petition against Canadian fish exports. In 1984 the International Court of Justice settled the boundary dispute in the Gulf of Maine, giving Canada jurisdiction over approximately one-sixth of the Georges Bank fishing grounds, but that area is inhabited by a significant portion of the fish in the area. The impact has been economic difficulties to the New England fishing industry, which in 1983 resulted in an ITC investigation into the competitive conditions affecting the Northeastern U.S. groundfish and scallop industries. The findings of the study were that there is a competitive market, exchange rates have not affected the competitiveness of the Canadian products, and government assistance appears to favor Canadian fish producers. The United States absorbs 60% of Canadian exports and 89% of the value of goundfish products, so any U.S. countervailing action would have a serious impact on the Canadian industry. It was suggested by several delegates that the United States and Canada should seek to establish a joint management scheme of the fish stocks in the area.

Softwood lumber

The members of Committee I devoted considerable attention to the matter of U.S./Canadian trade in softwood lumber. An American member explained that imports of Canadian softwood lumber have had a substantial impact on the U.S. industry. Canadian lumber has captured most of the growth in U.S. demand over the last fifteen years. Canadian penetration of the U.S. market has risen from 18% in the 1970's to 30% today. The U.S. market in softwood lumber represents $2.5 billion in exports for Canada, with the resulting loss of U.S. jobs and sales. He reported that the problem of the U.S. industry began in the 1970's when it gambled on inflation and a continuing market expansion; then housing starts plummetted with the recession, and the industry found it had overbid its resources. The Canadian industry has an advantage over its American competitors because of the value of the dollar, lower transportation costs, and lower stumpage rates. The U.S. equivalent of the Canadian stumpage rate is set by the market system, by firms bidding for the right to cut timber. The Canadian stumpage rate is set by the government and then reduced according to calculations as to what is required to make the Canadian product competitive. The ratio between the United States and Canadian (British Columbia) rates are forty or fifty to one.

The Canadian lumber sector is a $14 billion a year business, and the softwood portion is a $4 billion business. The importance of the industry to the Canadian and U.S. economies, and its volatility—in the 1960's the United States sought Canadian assurances for the continued supply of Canadian products for the U.S. market—require the two countries to cooperate and avoid conflict in this area.

The U.S. industry petitioned the Department of Commerce in 1982 that Canadian softwood lumber was subsidized because the stumpage fee was a fraction of its fair market value. The Commerce Department ruled that the Canadian system was not coun-

tervailable because it was de minimis and because the availability was not restricted to a particular industry. Canadians see it as unfair that the industry, having lost through the regulatory process, is now running to the Congress for protection. In fact, what happened is that the U.S. industry rejected a regulated system and has priced its raw material above the market value. The Jones Act also causes the U.S. industry difficulty by raising the cost of shipping. The real culprit is the value of the dollar, which is 90% of the explanation for the uncompetitiveness of the U.S. industry. Both the Canadian and U.S. sectors are facing lower demand and overcapacity from a reduction in the use of lumber in housing construction. The industry has lost 20,000 jobs in British Columbia alone.

There appeared to be general agreement among members of the Committee that a fair basis for valuation of the product is the cost of the raw product delivered to the sawblade at the mill.

The discussion returned to an issue that was discussed earlier, the draft bill H.R. 2451 to revise U.S. countervailing duties law with respect to natural resource input subsidies. It was explained that the legislation is aimed only at subsidization of exports which cause injury to U.S. competitors. It is generic legislation and is not aimed at any specific product. If the Canadian stumpage system does not amount to a subsidy, then Canada has no reason to be concerned over the proposed legislation. The bill is aimed at situations such as are found in some petroleum producing countries where petroleum is sold at well below the market price for the production of petrochemicals in the producing country, thereby giving those petrochemical products an unfair advantage internationally.

The principal difficulty in lumber clearly is the overvalued dollar. However, if the Canadian product is not freely available at the Canadian price—and Canada does prohibit the export of raw logs—then Canadian lumber could potentially come within the scope of the legislation, depending upon whether there was an unfair price advantage. The members of the Committee queried what was actually new with the proposed legislation, and the answer was the requirement of general availability on the world market of a raw material input at a fair market price.

Tax on tourist literature

Canada has an across-the-board 10% sales tax. Until several years ago, the tax was not imposed on tourism and travel literature. Such material is generally distributed free of charge and in most countries is free of any import or sales taxes. The imposition of the tax has caused considerable consternation and difficulties for U.S. private and public travel agencies. Committee I discussed the matter briefly, with members expressing satisfaction that Prime Minister Mulroney had given President Reagan a commitment at their March 17–18 meeting that the matter would be resolved in the forthcoming budget.

Subsidized freight rates

Committee I also briefly discussed U.S. concern over subsidized freight rates in Canada. Subsidized freight rates have been in effect in Canada since the 19th century as part of broader policies to en-

courage East-West rail transport and to promote agricultural exports. The Western Grain Transportation Act of 1983 provided for revision and gradual elimination of the special "Crow's Nest" rates. While the United States welcomes this legislation, concern has been expressed over the accompanying expansion of the number of agricultural products benefitting from subsidized freight rates. Canadian members explained that during the transition phase cash payments were being substituted for subsidized freight rates, but that the payments would eventually be eliminated. They also said that action was being taken to limit the expansion of the subsidy to new agricultural products and that a review of the matter would commence in the fall.

Pharmaceutical patents law

Canadian patents law permits the granting of compulsory licenses for pharmaceutical patents and the payment of a flat 4% royalty to the innovator of the pharmaceutical. An American delegate explained that Canada is the sole industrialized country with a compulsory licensing system for pharmaceuticals, or for any single industry, and that the effect is essentially expropriation. The 4% royalty frequently covers only a small portion of the cost of developing a patent and provides insufficient patent protection. Patent protection is aimed at encouraging inventiveness and development, and without it there is no incentive for R&D.

A Canadian responded that the new government recognizes the problem and is reviewing the issue. A Commission of Inquiry has studied the problem but has yet to issue its report. The difficulty with a U.S.-type patent law is that the pharmaceutical industry has a captive clientele with no choice but to buy the product at any price. Three separate studies in Canada have demonstrated that the Canadian system is in the consumer interest. For example, 100 pills of a name-brand product that sells for $16 is available for $1 under a generic label. U.S. firms are saying they will cease R&D activities in Canada if the law is not changed, but they undertake very little real R&D in Canada anyway. The Canadian government is seeking a compromise that will provide the U.S. pharmaceutical companies adequate protection, but will also protect the consumer, and the right compromise has yet to be identified.

Sugar

Committee I discussed the repercussions for Canada from the U.S. sugar support program which was created by the Agriculture and Food Act of 1981. The price of domestic sugar is supported by a loan program at $.18 per pound. An American member explained that without the program there would be no U.S. sugar producing industry. In order to avoid forfeiture of sugar, the program also authorizes quotas and import duties and fees. The United States produces 50% of its sugar consumption, Canada only 10%.

The concern of the Canadians is the January 28, 1985, proclamation restricting imports of certain sugar-containing products. A U.S. delegate explained that the purpose was to prevent the circumvention of the U.S. sugar quota, which some Canadian companies had done through shipping certain products containing sugar. Several Canadian delegates agreed that such circumvention had oc-

curred and should be stopped. However, they also pointed out that the proscribed list went far beyond items with a high concentration of sugar content. Various U.S. members accepted that characterization of the proscribed list and agreed many of the items should be eliminated. The Canadian price of sugar is the world price, $.03–.04 per pound, so shipment through Canada does present an opportunity to ship cheap sugar into the United States. It was noted that in recent months the United States has decreased the sugar tariff to the legal minimum and has suspended the $.02 per pound fee and that the two governments have been cooperating in resolving the remaining differences over the U.S. sugar program.

Beef

Canada and the United States have similar statutes regulating imports of beef and veal. In 1984 and 1985 a surge in meat imports from the EEC triggered the Canadian law, requiring the imposition of import quotas. While the quotas affected U.S. exports also, the two governments negotiated an arrangement which effectively allows U.S. beef to bypass the strictures of the Canadian law and therefore to enter Canada unhindered. One delegate noted that the beef import laws of both countries are ridiculous and, in effect, cartelize trade in beef.

Border broadcasting

U.S./Canadian broadcast issues have been on the agenda of the Canada-U.S. Interparliamentary Group each of the last ten years. A Canadian delegate explained that the 1976 law C–58 was enacted for both cultural and economic reasons—to increase revenues for Canadian content programming on Canadian stations. The Canadian broadcasting industry is becoming increasingly fragile, particularly with the recent cut of $75 million from the CBC budget.

An American delegate explained that the U.S. Congress reluctantly enacted mirror legislation denying tax deductions for broadcast advertising on stations in any country which denies such tax deductions for advertising on U.S. stations. A Canadian said that the Canadian legislation had brought $30 million in annual revenues to Canadian stations and so has helped strengthen the health of Canadian stations and advertising agencies. Another Canadian suggested that, with both countries having similar statutory provisions, if there were offsetting revenue losses, maybe both statutes could be revoked. The opinion was expressed that the U.S. statute will have little impact in Canada and that the revenue loss between the two countries will never be equalized.

The members of Committee I also discussed the issue of broadcast patent rights. An American explained that the U.S. Congress is becoming very aggressive over patent/copyright piracy. Canadian copyright law does not protect domestic or foreign creators of motion pictures or other television programming against unauthorized retransmission, and there is growing concern in the United States over the unauthorized retransmission of U.S. programs by Canadian cable systems. This is a serious matter because of the potential magnitude of the economics involved. The issue is one of control of air space, and what is needed is a joint study to establish the facts followed by a bilateral agreement. A Canadian member

noted that the Mulroney Government has a new communications policy and has established a task force on communications policy which is expected to review the entire area in the fall.

COMMITTEE II—ENERGY AND DEFENSE ISSUES

Committee II was chaired by Pat Nowland and Ted Stevens. The Canadian delegates serving on committee II included Senators David Hays and Henry Hicks and the followings Members of the House of Commons: Pat Nowland, Lloyd Axworthy, Jim Hawkes, Pauline Jewett, Louis Plamondon, and Barbara Sparrow. The American members of the Committee included Senator Ted Stevens and Representatives Michael Barnes, Brian Donnelly, and John Miller. Other U.S. and Canadian delegates participated in discussions on specific issues.

CANADIAN POLICY ON NATURAL GAS EXPORTS TO THE UNITED STATES

A Canadian delegate opened discussion on this topic by explaining that the new government in Canada is making energy policy changes to move to a market sensitive pricing system for energy resources, with the caveat that export prices for Canadian natural gas (and petroleum) would not be less than domestic Canadian prices. The Western Energy Accord, reached between the national government and the governments of the western provinces on March 28, 1985, provided for deregulation of natural gas prices on November 1, 1985.

By way of background, another Canadian delegate explained that before the watershed change in the national government on July 13, 1984, the price structure for Canadian natural gas had been set in negotiations between Canada's federal government and the Government of Alberta. Some allowance was permitted by the previous national government for renegotiation to take into account prices of competing alternatives to Canadian gas exports in United States markets. That situation will be changed by the Western Energy Accord's deregulation of natural gas prices due to take effect on November 1, the beginning of the gas contract year. Since the change in government policy, the Canadian National Energy Board (NEB) has not yet considered pipeline applications to export Canadian natural gas to the Mid-Atlantic states. Nevertheless, the Canadian speaker believes that the new Canadian Government's policy change will make Canadian gas exports to the U.S. more competitive and should result in U.S. purchasers buying a larger percentage of approved export volumes than in recent years. Moreover, as a part of the new Canadian policy toward increased market sensitivity, the delegate asserted that Canada may abandon the use of Toronto city-gate pricing as a floor for gas export prices, a practice that has often resulted in artificially high assumed transportation costs for Canadian gas exports which put them at a competitive disadvantage compared to alternative energy sources. In conclusion, he reminded the American participants that Canada's domestic natural gas needs will continue to be protected by the Canadian law that requires a deliverable surplus of natural gas equal to 25 years supply, based on current year usage, before natural gas exports can be licensed.

CANADIAN ENERGY POLICY CHANGES AND BILATERAL ENERGY COOPERATION

A Canadian participant explained that the new Canadian Government is in the process of making or considering a number of changes in the policies governing the energy sector in Canada. As an aspect of such policy reforms, the Canadian Government will be bringing up a bill in Parliament, C-15, which would significantly curtail the powers of the Foreign Investment Review Agency (FIRA). The Government also expects to end the 25% back-in requirement for foreign energy interests on "Canada lands" (territory and areas controlled by Canada's federal or national government) under the existing National Energy Policy (NEP). A decision on that matter was reported to be pending in the Cabinet. The Canadian speaker did make clear that there would be some royalty or participation arrangement for energy leases on Canada lands.

Another Canadian participant recalled the economic hardship the NEP caused in Canada's western provinces and elsewhere. Economic conditions in those areas are now beginning to turn around. He expressed support for the current Canadian Government's more market sensitive energy policy because he argued that energy exports on a competitive, non-regulated basis are needed to help finance costly investment necessary to develop energy resources in off-shore areas, the Beaufort field, on Canada lands, and from tar sand deposits.

Two Canadian delegates cautioned the American members not to uncritically accept that the extent of policy changes proposed by the present Canadian national government will necessarily be adopted, especially those changes related to energy investment and price deregulation. Those delegates based that conclusion on a deduction that the public would not support changes of so extensive a nature. As evidence for that deduction they pointed to gains by the opposition Liberal Party in recent provincial by-elections in Ontario. However, two other Canadian delegates of the majority Progressive Conservative (PC) party rejoined that the current PC national government will go forward with the full extent of its proposed changes in spite of any headway the Liberals had made in the Ontario provincial government. They also argued that issues regarding changes in energy policies played no significant role in those provincial elections.

Another Canadian delegate expressed concern about the continued lack of greater bilateral cooperation to permit petroleum exports between our two countries. He said that the existing U.S. policy prohibiting exports of U.S. crude oil is unwise because of the economic efficiency which would result from oil "swaps" between Canada and the United States. An American participant noted that the U.S. prohibition is a statutory one imposed by the Congress and is still strongly supported by New England interests. The American speaker did acknowledge that resistance in New England to domestic U.S. crude oil exports could decline as the region continues to diversify its energy supply sources. The previous Canadian speaker urged U.S. action to loosen the prohibition on the export of aid and pointed out that concerned domestic interest might be reassured by a requirement that any U.S. crude oil exports to Canada be offset by

equivalent imports elsewhere ("swap"). A Canadian delegate asked U.S. members to comment on the prohibition in U.S. law against oil exports. An American replied that he does not see much chance of repeal of the prohibition. A second American noted that Congress recently passed legislation to extend the Export Administration Act without giving any consideration to repealing or amending the prohibition, which originally stemmed from a desire to prevent exports to Japan. Even some (non-Alaskan) oil producers wish to maintain the prohibition to help keep Alaskan oil reserves on hand as a strategic reserve.

Another Canadian stressed that while the new government of Prime Minister Mulroney is discarding exisiting price regulations and investment restrictions in the energy sector, it still maintains a commitment to "Canadianization" of that sector. That commitment reflects the fact that there is still continued concern in Canada about the extent of foreign control of Canada's energy resources and the reliability of such foreign interests in time of worldwide energy market disruption. Some Canadians have unpleasant memories of the 1973 oil embargo and the way short supplies of oil were allocated. More recently, Canadians have been closely following Chevron Oil's acquisition of Gulf Oil. As part of that acquisition, it was stipulated that Chevron would divest Gulf/Canada to Canadian interests. That divestiture has not yet been accomplished. He concluded his remarks by asserting that while FIRA may have had its shortcomings, it was effective in "leveraging up" foreign investor commitments in Canada in such important areas as increasing Canada's share of research and development.

A participant from Canada stressed that Canada's present government was doing away with the major irritants in its energy sector policies which had discouraged foreign investment. He stated that the Canadian Government was undertaking these policy reforms because it recognized that the energy sector and the whole Canadian economy is under-capitalized and that this situation is a drag on Canada's economic growth.

A U.S. member expressed concern about future exploitable oil and gas reserves in the United States and Canada, as well. He noted that more than 150 oil wells have been drilled in Alaska alone in the last 16 years without adding anything to U.S. oil reserves and at substantial cost. The United States and Canada are unable to maintain their traditional oil reserve requirements of 9 years supply and 13 years supply, respectively. Similarly, there is a lack of a sufficient and efficient transportation system for energy, especially for natural gas. The American speaker predicted a slow exodus of the oil industry from Alaska unless a large oil find occurs.

A Canadian member claimed that there is not a good institutional framework for continuing long-term planning on energy matters. He wondered what kind of bilateral, long-term, joint energy planning arrangement is required. A U.S. participant responded that industry-to-industry discussions are needed on continental energy planning and creation of a planning mechanism to deal with the problems of inefficiency in allocation and transportation of energy supplies between areas of surplus and shortage in our two countries. Of course, such a joint Canadian and U.S. industry plan

would require implementation actions by the U.S. and Canadian governments. An example of the existing inefficient governmental regulations affecting energy transportation is found in the Puget Sound. U.S. tankers are not permitted to use Puget Sound's port, but foreign tankers may.

A U.S. and a Canadian delegate commented on the failure so far to arrange financing for the Alaskan Natural Gas Transportation System (ANGTS) pipeline. The Canadian said it did not work out because too many interests were involved. Both delegates agreed that ironically prospects for financing the AGNTS pipeline suffered from the fact that the Canadian "pre-build" segment of the proposed system provided Canadian gas exports to the Mid-West at prices cheaper than that at which Alaskan gas could be sold.

A Canadian stated that his country wants to move to a situation of freer trade and more open market access in the energy sector as well as in other economic sectors. He views the House of Representatives as the center of protectionist sentiments in the United States. A U.S. member noted that legal impediments to fairer trade exist, but in view of American public perceptions of unfair foreign competition, it would be tactically better for Canada to take the lead in seeking to establish a climate for freer bilateral trade. A second American agreed with that analysis. Now is a good time for such efforts in the energy sector because it is a time of relative energy surplus in both countries. Another American participant reported that there is more protectionist talk than action in the House of Representatives, but he agreed that Canada should take the lead in putting proposals forward for freer trade.

A Canadian raised the question of whether part of the problem in dealing with long-term cooperation and trade in the energy sector is that our focus on continental reserves, which are declining, is too myopic. He continued by suggesting that we are giving too little thought to reserves and the situation in other energy producing areas of the world. He noted that petroleum demand is increasing steadily in the world. For example, the U.S.S.R. recently became a net importer and China's demand is growing. He concluded by proposing that we should be thinking in broader terms about what needs to be done to assure future energy security.

BILATERAL ELECTRICITY TRADE

A U.S. participant suggested that in the Northwestern States and New England there is potential for mutual benefit from the sale of Canadian hydro-electric power. He also welcomed the settlement of the controversy between Seattle and British Columbia over Seattle's proposal to raise the Ross Dam (thereby flooding areas of Skagit Valley). An agreement has now been reached under which Seattle will not raise Ross Dam, in exchange for British Columbia selling hydro-electric power to Washington State at a price equal to or less than the cost for electricity which could have been produced if the Ross Dam has been raised. While there is a potential for further sales of Canadian hydro-electric power to utilities in Washington State, such potential will be restrained by the desire of nuclear power interests in the state to protect the domestic electricity market from additional Canadian competition.

Another American pointed out that New England utilities recently signed a long-term firm contract with Quebec for the purchase of hydro-electric power for New England consumers. The agreement is viewed by many in that region as a good way to help reduce their reliance on oil imports which make up about 60% of the region's total energy supplies. One potential problem on the horizon from the American side may be the concerns of organized labor in the United States over the loss of jobs in older, more labor-intensive, coal and oil fired United States electricity generating plants.

On the Canadian side, a member cited a possible limitation on the growth of hydro-electric power exports to the U.S. due to the large "front-end" financing costs of constructing new generating facilities. The Canadian speaker questioned U.S. delegates on their reaction to the possibility of including in the export price to the United States a share of costs of capitalization for the construction of new hydro-electric generating facilities. An American replied that many U.S. consumers are very sensitive about the concept in view of their experiences with that type of utility rate financing for some domestic nuclear-powered generating plants which then never came on line for a variety of reasons, including problems with unrealistic cost estimates and bad management.

A Canadian delegate expressed concern about competition for Canadian hydro-electric power exports from U.S. Appalachian coal with U.S. powerplants coverted from oil fired to coal fired. An American responded that it may not be a problem in view of the cost of converting old plants from oil to coal and of the environmental concerns and costs associated with burning coal to generate power.

CANADIAN ACCESS TO THE U.S. URANIUM MARKET

A Canadian participant explained that Canadians are also concerned about the prospects that the United States will restrict imports of uranium from Canada. He understood that the main concern on the U.S. side is Canada's policy that Canadian uranium should be refined or processed (into uranium hexaflouride) before export. Canadian refineries were built to process 15,000–18,000 tons of uranium per year. However, they are operating at far less than capacity, probably no more than 6,000–7,000 tons per year. Canadian refiners are urging their government to resist U.S. pressures for exemptions to the policy of Canadian refining of uranium exports. Such exemptions could also reduce the likelihood of sale of a government owned Canadian refining plant to the private sector.

Another Canadian delegate asked the status of Canada's uranium reserves. A colleague replied that Canada's reserves are "vast." A Canadian asked if the problem is not really one of overconstruction of refining facilities, given the situation of the nuclear energy sector and the correspondingly flat nature of market demand for uranium.

A U.S. member inquired whether his recollection is correct that the U.S. import quota on uranium was "repealed" last year. An American colleague verified that the quota was phased out a little more than a year ago. He also noted that the quota ceiling of 37%

was never reached in any event. He concluded by emphasizing the concern of U.S. uranium processors who wish to have a fair chance to compete for the business of refining imported uranium.

STRATEGIC DEFENSE INITIATIVE (SDI)

A Canadian delegate noted that the Government of Canada supports the United States research effort on the SDI but has not yet decided whether to actually participate in the research program. He reported that some Canadians are apprehensive that a U.S. movement away from what they consider a "deterrent-oriented" system and toward a "defense-oriented" system will be destabilizing. That apprehension is rooted in their understanding that Canada has lived for some time under the U.S. nuclear umbrella and its long-held hypothesis of deterrence based on the theory of "mutual assured destruction" (MAD).

The Canadian speaker continued by assering that the SDI will bring Canada into a "frontline" strategic defense position because the SDI presupposes existence of a second, atmospheric continental defense shield against Soviet bombers and cruise missiles which could threaten North America. Secondly, the SDI is felt to pose implications for the traditional Canadian disarmament policy against the militarization of space. Lastly, the Canadian delegate expressed concern that the SDI will undermine the Anti-Ballistic Missile (ABM) Treaty which many feel is an important part of the system of deterrence.

Another Canadian participant echoed the previous speaker's concern about potential violations of the ABM Treaty by both the United States and the Soviet Union, especially if research by the two superpowers on Ballistic Missile Defense (BMD) systems continues and the technology becomes more widely known. The Canadian speaker acknowledged, however, that Canada needs much more informed discussion of the SDI. That participant noted that such an opportunity for fuller public discussion of the SDI may be in the offing in view of recent statements by External Affairs Minister Joe Clark that there would be a delay in the Canadian Government making a decision on participation in the SDI research program.

An American delegate explained that the basic concept of the SDI has been known since at least the 1950's, and cited as evidence the ideas of the late rocket scientist Wernher Von Braun. Research and investigation of elements of the concepts have continued at low levels since that time. During the intervening years, the United States has incorporated into the SDI concept some aspects gleaned from the Soviet's low orbital satellite system which originated in the 1960's. More recently, an effective missile interception test was made by the U.S. a few months ago to demonstrate the potential technical capability. The U.S. speaker went on to explain that the United States is embarking on a "crash" research program on SDI because many feel we need to have the capability for a non-nuclear deterrent response to a potential Soviet nuclear attack instead of relying totally on a nuclear counter-attack response. It was also noted parenthetically that the U.S.S.R. has been working on strategic defensive systems harder and longer than the United States.

The same U.S. participant went on to assert that the SDI research effort has had an important and beneficial collateral effect on the arms control negotiations between the United States and the Soviet Union. U.S. congressional observers and the U.S. arms control negotiators are convinced that the SDI is the motivating force which brought the Soviets back to the negotiating table and will keep them there as long as they think that SDI could work. The American delegate, who had been extensively briefed by U.S. arms control negotiators, argued that SDI is practically all the Soviets want to talk about at the negotiations and that the United States is willing to put the issue on the negotiating table. In light of those factors, the SDI could serve as an impetus to reaching a real, significant arms control agreement between the two superpowers. The U.S. speaker asserted that an effective SDI, together with a meaningful arms control agreement (on offensive nuclear weapons), could significantly reduce the chance of a nuclear war and make the nuclear arms situation more stable. Of course, such an otherwise welcomed turn of events would expose the United States more to the Soviet's superiority in conventional arms. With regard to the issue of hypothetical cost effectiveness, that participant asserted that it would be cheaper in the long-run to go with a defensive system to make the Soviets' 600 SS–18's ineffective than to build 600 of our MX missiles to offset the SS–18's. The U.S. could move relatively fast on SDI system research if Congress provides $7–9 billion in multi-year funding for the program.

Another American member expressed the view that President Reagan is very committed to the SDI research effort. He reported that public debate in the United States on SDI is beginning to occur, but there is not yet a very deep understanding of what is involved. That U.S. delegate predicted cautious approval in the House of Representatives for going forward with research. However, there is skepticism about whether the SDI concept is really workable and concern over the eventual deployment costs of an SDI system. He also stated that some Americans believe the Soviet's principal concern with SDI is the cost to them of deploying such a system of their own. Other concerns have been expressed by some Members of the House of Representatives including the potential effect on strategic stability and arms control efforts, the problem of verifying whether either superpower is going beyond research alone, and SDI's applicability to a hypothetical worst case scenario of an opening Soviet first-strike attack on the United States with submarine-launched ballistic missiles (SLBM's) deployed near our shores. In the context of the arms control negotiations process, two U.S. delegates disagreed about whether an agreement between the United States and the U.S.S.R. on SDI should be the first or last element in a comprehensive arms control agreement.

A Canadian delegate said there is actually more common ground for all sides on the SDI issue than might appear on the surface. While that speaker expressed concern over the effectiveness of the SDI, he stated that research must continue. He observed that the nature and history of mankind compel man to seek knowledge in this area. However, he agreed it is necessary to assess both the feasibility and the strategic desirability of the SDI. He also expressed

the personal view that Canada should participate in SDI research to preserve its role in the future decision making process on SDI. The speaker agreed with a Canadian colleague that SDI research should not be undertaken solely for the sake of potential technical discoveries which might result, but nevertheless, we cannot discount those potential discoveries.

An American member agreed with the earlier analysis of the position of the U.S. House of Representatives on going forward with research on the SDI. He asserted that the principal remaining issue is the level of funding, or how fare to proceed considering the high costs, and what is likely to be the Soviet response. That delegate reminded the committee that both the United States and the U.S.S.R. have been doing research in these areas all along. President Reagan merely brought the effort to public attention. He stressed the view that the SDI program should not do anything that would constitute a violation of the ABM Treaty. In that regard, he noted the concern of some that recent comments by certain U.S. Executive Branch officials raise the specter of possibly "scrapping" the SALT II agreement completely, as well as the ABM Treaty. He said we must make all efforts to negotiate deep reductions in levels of nuclear weapons and learn to live together, but still we cannot ignore what the Soviets have done since World War II.

A Canadian asked the previous American speaker whether he considered the SDI to be destabilizing. The U.S. delegate replied "yes," just as Soviet activities have been destablilizing. He argued that we must "hold the Soviet's feet to the fire" on compliance with the ABM Treaty, particularly with respect to their low and high orbital satellite programs.

An American participant asked what Canada's decision would be on participation in the SDI research effort. A Canadian member responded that Canada should not participate, and perhaps it would be better for the United States if its other allies did not. He questioned why the United States would seek Canadian and European participation in the first place. Canada would be a more valuable friend by using its capacity for undertaking diplomatic efforts on behalf of all the Western countries, but from more of a sideline position.

The same Canadian delegate reiterated a previous Canadian speaker's concern that the SDI, like other decisions of U.S. strategic planners since at least 1979, represents a move away from the MAD strategic nuclear doctrine. He stated that it makes no sense to have a space defense without a low-level air defense against bombers and cruise missiles. He further argued that even if the SDI were to become feasible over time, there would still be a period of great risk during the interim, possibly as long as 20 years, as the U.S.S.R. seeks to overcome the SDI. The speaker concluded by reemphasizing his view that Canada should not participate in SDI research and predicting that if the United States "pushes" its allies on the issue, it will create a serious, broadbased, anti-American backlash.

A U.S. participant responded that we must go forward with SDI research, that it would be naive not to do so. He expressed the view that some critics actually hope that SDI research will not demon-

strate the concept's feasibility. In further response to the previous Canadian speaker, he argued that President Reagan had to ask U.S. allies for their views and interests in participation in the SDI. He would have been criticized for not doing so.

A Canadian member agreed that President Reagan was right to raise the SDI issue with the allies, and he must expect their comments. She continued that the President should have also consulted the Soviet Union. The Canadian speaker voiced agreement with the President's early suggestion of sharing the results of SDI research with the Soviets if it turns out that an effective defensive system could be developed.

The same speaker went on by stating again the view that the SDI is an element of a shift to a nuclear war-fighting mentality started by the Carter Administration and continued by the current Administration. That mode of thinking assumes that a nuclear war will be fought. Thus, its program elements go far beyond the needs of deterrence. Instead, the member urged that we should be concentrating on or readdressing the Test Ban Treaty and the Nuclear Non-Proliferation Treaty.

Another Canadian participant stated that the New Democratic Party (NDP), of which the preceding Canadian speaker is a member, is not credible in its arguments against SDI research and Canadian participation because the NDP is opposed to NATO. The previous Canadian speaker responded to that comment by arguing the need to do away with the existing system of two superpower-dominated blocs in the world.

A Canadian delegate stated that he does not think the opposition parties in Canada can make the SDI a significant issue. Most Canadians are more concerned about jobs and access to U.S. markets. He proposed that Canada should participate in SDI research for two important reasons. The first is the need to restore and strengthen Canada's research capability in "high tech" areas. Secondly, the new government in Canada needs to strengthen its ties and friendship with the United States and increase the influence of Canadian views in Washington. Moreover, he said he was encouraged by an earlier American speaker's analysis that the SDI is all the Soviets really want to talk about at the Geneva arms control negotiations as that indicates that SDI is a good bargaining chip. He viewed the prospects that the SDI would offer that kind of leverage toward arriving at an arms control agreement as yet another reason why Canadians would not want to oppose it.

A Canadian asked whether the main reason for undertaking the SDI is because of its perceived value as a bargaining chip. The preceding Canadian speaker replied that its usefulness as a bargaining chip is important, but he feels a more significant reason for undertaking the SDI research program is because the Soviets are engaged in similar research.

An American member asserted that the United States is not necessarily doing SDI research merely, or even primarily, because it is a good bargaining chip in on-going arms control negotiations. The U.S. is doing SDI research because that is where the future is going. He digressed to speculate that perhaps some day in the future we might even be able to develop technology which would provide effective defense against conventional weapons and thus

might reduce nations' readiness to resort to use of conventional armed forces as an instrument of policy. The U.S. speaker then recalled that in the case of ABM technology, the Soviets took the research and testing initiative. The ABM Treaty came only after the United States started to work on an ABM system, and U.S. technology rapidly surpassed Soviet technology. The United States has great technological capacity, but is not as advanced in some technological areas as others are, for example West Germany. Therefore, it would be helpful to all concerned if there could be more technological cooperation between the United States and its allies. Also, he noted, although the United States has an overall technological superiority over the Soviet Union, the Soviets have more production and backup capability. Nevertheless, the Western world has a significant advantage in technological research because our research capabilities are not so rigidly compartmentalized as the Soviets'. Therefore, we have much greater opportunity for and benefits from intellectual "cross-fertilization" in our research efforts.

Two Canadian delegates mentioned again the important roles of atmospheric air defense against air-breathing systems (bombers and cruise missiles) in the overall picture of a comprehensive defensive system.

ARMS CONTROL NEGOTIATIONS

A U.S. delegate opened discussion of this issue by briefly cataloging the positions of the United States and the Soviet Union on various elements of the START negotiations at the time the Soviets broke off participation in the talks. He summarized by noting that the two sides were far apart at that juncture, but both had proposed nuclear weapons levels below those provided in the unratified SALT II agreement. The American speaker continued that both the United States and the U.S.S.R. are pursuing anti-satellite (ASAT) systems, but the United States wants strict limits agreed to on such systems. Both countries now have testing moratoriums on ASAT systems' elements. He also pointed out that the United States is concerned about "alleged" Soviet violations of existing arms control agreements. Soviet activities in deploying a particular radar array in Siberia (which could be used in a manner violating the ABM Treaty) and the encryption of missile telemetry (prohibited by SALT II) were cited as examples of such violations which cause the United States particular concern. The American delegate concluded his remarks by explaining that Congress has been active on arms control and strategic weapons issues. He expressed the view that as long as the Administration appears to be negotiating in good faith in Geneva, it will continue to have the support of Congress, with at least "tacit Democratic support."

A Canadian member said it was unclear whether the SDI is "on the negotiating table." A U.S. participant replied that every aspect of the SDI is on the negotiating table except the research element. He then noted, however, tht the Soviets do not want to negotiate on reductions in strategic and intermediate nuclear forces until the United States first abandons the SDI. The American delegate expressed great confidence in the three-man U.S. negotiating team in Geneva.

The U.S. speaker then stressed the importance to the United States of the issue of the new Soviet Siberian radar installation. It is not believed to be solely an acquisition radar. Instead, it appears that it can be used for command and control of a mobile surface-to-air missile system, and, if linked into that type of system (such as the existing ABM system around Moscow), it would put the Soviets on the verge of a major break-out from the ABM Treaty by expanding ABM system coverage well beyond the Treaty's restrictions. Similarly, the United States is concerned about the Soviet Practice of encrypting almost all missile test data, which they are doing inspite of prohibitions on such actions in existing arms control agreements. The American participant concluded that the environment of the Geneva arms control negotiations would be materially improved if the Soviets were to undertake confidence building measures in those areas.

A Canadian member inquired whether anything is being done to reduce the level of distrust between the United States and the Soviet Union to help the negotiations along? A U.S. delegate described the practice of having "social meetings" among the U.S. and Soviet negotiators as a means for promoting more informal, friendlier, and freer discussion. However, he observed that the current Soviet leadership appears tough and audacious in its dealings with the governments of the Western world.

Another Canadian participant asked the preceding U.S. speaker if he could cite some manifestations of the Soviet leadership's audacity. The American member responded that Soviet leader Gorbachev showed that trait in his blatant attempts to sell the Soviet position on arms control to the Western public and to "manipulate" the Western press as part of that effort. However, the U.S. speaker argued that Gorbachev is actually typical of tough Soviet leadership circles, and the speaker is convinced that Gorbachev is very aggressive.

A Canadian delegate posed the question of how do we respond to Gorbachev's public showmanship in order to use it to our advantage. Can we get an arms control agreement from him? A U.S. member noted that we should remember that Gorbachev faces pressures, too. They include economic decline, poor agricultural production, the growth of consumer demand, and rising defense costs.

Another American delegate asserted that Gorbachev's first priority is the area of personnel and consolidating his control. Gorbachev has placed two of his proteges on the Politburo, but we will not be able to gauge his success at strengthening his control until the plenary meeting to be held in January or February of next year. The U.S. speaker said Gorbachev's second priority is the Soviet economy. In that regard, the real test of his leadership will not come for about two years, after the marginal economic reforms have been made and have failed. Then we will see whether Gorbachev can successfully take on the Party bureaucracy over making the necessary tough major economic reforms. The American member continued by pointing out that Gorbachev has so far followed the traditional Communist Party line on arms control. In fact, it appears that he has not changed any foreign policies (such as the policy on Afghanistan). Instead, Gorbachev seems to be fol-

lowing the Party bureaucracy and Foreign Minister Gromyko on foreign policy matters.

Two U.S. delegates agreed that the Soviet leadership still exhibits a basically collective nature, but Gorbachev's style is an important factor to watch. His career indicates that he is an experienced "mover" within the Party bureaucracy. One of the American delegates also noted that it may be significant that Gorbachev has thus far denied the Soviet military a slot on the Politburo.

MODERNIZATION OF NORAD

NORAD, the North American Aerospace Defense Command, is responsible for the North American radar warning system which guards against incursions by Soviet bombers and cruise missiles in North American air space. Several Canadian and U.S. delegates noted their support for the Memorandum of Understanding signed between Canada and the United States on March 18, 1985, which provides for joint efforts on a package of North American air defense system improvements. That package includes: construction of 13 long range radar stations and 39 short range radar stations across northern Alaska, northern Canada, and along the Labrador coast; an integrated communications network; over-the-horizon-backscatter (OTH-B) radar coverage from U.S. locations; airborne radar coverage in North America by U.S. Air Force AWAC's aircraft; and use of Canadian airfields for forward operating bases and dispersed operating bases for AWAC's and fighter aircraft.

A Canadian participant referred to a "scary" news article about alleged NORAD command and control problems with the nearly obsolescent DEW (Distant Early Warning) Line radar warning system. (The DEW Line would be superseded by the improved North Warning System, as the improved system agreed to in the March 18 Memorandum of Understanding would be called.) A U.S. delegate inquired about what specific dangers the article discussed. The Canadian speaker cited alleged shortcomings of NORAD's communications system, such as the reported unreliability of the phone system.

The members of Committee II concluded their discussions and joined the members of Committee III for a joint session on the food crisis in Africa.

COMMITTEE III—FISHERIES, ENVIRONMENT, AND MULTILATERAL ISSUES

Committee III was chaired by Fred McCain and James Oberstar. In addition to Mr. McCain, the Canadian House of Commons was represented by Ross Belsher, Stan Darling, Iain Angus and Guy Ricard, and the Senate was represented by Peter Stollery and Nathan Nurgitz. U.S. members included, in addition to Mr. Oberstar, Congressmen John LaFalce, Arlan Stangeland, and David Martin.

In opening the deliberations of Committee III, a delegate cited the progress that has been made on Committee III issues, including progress on Great Lakes pollution, control of the lamprey, ratification of the North Atlantic Salmon Convention, and establishment of the International North Pacific Fisheries Convention. In express-

ing the hopes of both delegations for continued progress, he quoted former Canadian Prime Minister Meighen: "We are not in the same boat, but we are surely in the same waters." We must try, he said, to steer in the same direction. This spirit dominated the discussions of Committee III.

FISHERIES AND BORDER ISSUES

Fisheries management questions

The context for the discussion of fisheries management questions was the October, 1984, ruling of the International Court of Justice (ICJ) on the maritime boundary dispute. This decision has reopened virtually all bilateral fisheries issues on the east coast, most of which were dormant during the case.

An American delegate asked what Canada was doing to conserve fish on the George's Bank. A Canadian delegate responded that Canada had cancelled 700 salmon fishing licenses in Newfoundland and was working on developing fish hatcheries. He said commercial salmon fishing was no longer permitted in the Maritime Provinces. He noted, however, that fish travel and, therefore, a common U.S.-Canadian approach is needed on quotas, seasons, and other forms of control. It does no good, he said, for Canada to regulate its part of George's Bank if the U.S. portion is unregulated.

An American delegate characterized the Canadian moves as very significant. He described similar conservation efforts on the U.S. side, but noted that the United States is still in a "shake down" stage following the ICJ decision. Both delegations expressed frustration that the Russians are taking fish beyond the 200-mile limit. Another American delegate described conservation efforts off the West Coast, pointing out that salmon stocks are being replenished under a regulation that prohibits taking salmon that are less than three years old.

Minnesota-Ontario border fishing issues

Discussion centered on the decision of Ontario to impose a user fee of $3.00 per day (U.S. $2.30) on U.S. sports fishermen. Members of the U.S. delegation argued that the purpose of the measure is to keep U.S. tourists from using resorts and outfitters on the U.S. side, inasmuch as the fee is not charged to those who use Canadian facilities. As an illustration of the importance of the issue, a U.S. delegate pointed out that it was raised by Secretary of State Shultz at the Quebec summit. The U.S. delegate argued that the measure violates the 1909 Boundary Waters Treaty. Another American expressed his frustration that he had been helpful in repealing Buy-American provisions with respect to cement, to the great benefit of Canadian cement producers, and then was hit with this problem. He stressed that there are very hard feelings in Minnesota over this issue. Emphasizing that everyone loses when tourists go elsewhere to avoid hassles over the user fee, the U.S. delegates asked their Canadian counterparts for help at the federal level in pressing Ontario to change its policies.

The Canadian delegates agreed that the user fee responds to the concerns of the Canadian outfitters. Canada's tourist industry wants Americans who fish Canadian waters and deplete Canadian

fish to use Canadian facilities. They also pointed out that the uncertain political situation in Ontario made it difficult to get action from the Ontario government, and they noted the difficulty of getting Ottawa to confront Ontario on the issue. They agreed, however, that it was necessary for the two sides to work together, possibly through a joint commission, and that the Canadian Parliamentarians should explore the possibility of legislative action in Ottawa. One Canadian delegate suggested that the U.S. and Canadian governments might want to direct the International Joint Commission to deal with this issue. There was a clear willingness on the Canadian side to see what could be done to resolve this problem.

High seas interception of United States/Canada salmon

An American delegate expressed alarm over the interception of Alaskan and Siberian salmon on the high seas by Japan and, recently, Taiwan as well. He said that Japan takes three billion tons of fish beyond the 200 mile limit off Alaska every year, and that Japanese fisherman take more halibut into their nets accidentally every year than the United States and Canada together catch deliberately. He said that the United States claims jurisdiction under the International North Pacific Fisheries Convention, but that the treaty provisions are not enforced because the United States is unwilling to retaliate by means of limiting Japanese imports. Sixty per cent of the Japanese catch off Alaska come back to the United States in processed form.

Cyprus Anvil Mine transportation

The White Pass and Yukon Railway runs from the Yukon to Alaska. The railway has not operated since 1982 because of the closure of the Cyprus Anvil Mine, in the Yukon, which had provided most of the bulk freight revenues. The possible reopening of the mine raises the question of whether to reopen the railroad or to rely on road transportation.

An American delegate argued that the road in question is already overused by tourists. One-third of the tourist traffic into Alaska comes in by that road, and the road cannot handle ore trucks as well. Heavy use by ore trucks will require rebuilding the road every year. Therefore, both the Alaskan and the Canadian tourist industries oppose use of the road by ore trucks. The delegate concluded that, if the mine reopens, the railroad would have to be reopened.

The Canadian delegates responded that the energy, labor, and capital costs of reopening and operating the railroad would be so high that federal subsidies would be required. Therefore, they concluded, if the mine reopens, it would be best to get the ore out by road.

Raising the Hamilton and the Scourge

In 1813, the American naval vessels Hamilton and Scourge were lost in a sudden gale while attempting to engage a British flotilla on Lake Ontario. The wrecks—and remains of 53 American sailors—lie at the bottom of the lake in Canadian waters. Sackets Harbor, New York, wishes to have the ships raised, the Hamilton

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returned for historic display in the Sackets Harbor Battlefield State Park, and the remains returned for proper burial. The Scourge would be turned over to the Royal Ontario Museum in Toronto. The U.S. Navy has offered salvage expertise, technical assistance, and equipment for implementing such an arrangement. The museum has rejected this arrangement, preferring to stick with an earlier agreement whereby both vessels were to have been turned over to the museum. Sackets Harbor has been unsuccessful in attempts to convince the City of Hamilton, Ontario (the apparent owner of the ships) to return the Hamilton. An American delegate asked the Canadian delegates to do what they could to resolve this problem, which they promised to do.

ENVIRONMENTAL ISSUES

Acid rain

The discussion of acid rain was noteworthy for the degree of consensus that had emerged on the issue among the delegates and the Canadian and American publics over the past few years. A Canadian delegate cited with approval a Louis Harris poll showing that 94 per cent of the American people are now aware of the acid rain problem. He also noted increased American awareness of the effects of acid rain in the United States itself—e.g., in the Adirondacks—and an apparent willingness on the part of the American public to pay for cleaning up the acid rain problem. Since 50 per cent of Canada's acid rain originates in the United States, Canada is dependent on the United States for effective action on this problem, and the delegate expressed the hope that supportive U.S. public opinion would be translated into effective action.

For years, this delegate noted, the United States had criticized Canada for not having an effective program for dealing with its own acid rain production. However, he said, Canada recently announced a new program with the following elements:

Reduce SO_2 emissions by 50% by 1994.

Adopt tough emission standards for new cars effective September 1987.

Provide $150 million for emission controls at smelters.

Assure $25 million for technology development.

Investigate increased use of low sulphur coal from Western Canada.

Assure $70 million for cleaner, more efficient use of coal.

Guarantee $18 million per year for research for monitoring.

Organize an Acid Rain Office to coordinate new policy.

Finally, the Canadian delegate emphasized that acid rain creates other problems besides destruction of lakes: it is associated with respiratory problems such as emphysema; it damages forests; and it causes deterioration in historic buildings.

An American delegate from New England shared his own concerns with the committee over the effects of acid rain in his area. More than 12 lakes in his state are already biologically dead from acid rain. The fact that only 10 per cent of New England's acid rain is locally produced highlights the need for a national solution. However, this delegate did not share the Canadian delegate's optimism over the willingness of the U.S. public to pay higher utility

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bills in order to clean up acid rain. In particular, he said, there is a 50–50 split in Congress over who should pay for retrofitting plants in the midwest that produce emissions that create acid rain in the northeast. This debate has held up the reauthorization of the Clean Air Act. Although the people of New England believe that the producers of acid rain ought to pay, they recognize that that is unrealistic and are willing to share the cost. However, a broadly acceptable formula has not been found. This delegate agreed with his Canadian colleague that the time for research was over, and the time for action had come.

The remarks of an American delegate from the Midwest illustrated the political problem in the United States. He said that the cost ought to be paid by the producers of high sulfur coal in West Virginia. The Midwest already pays a premium for low-sulfur coal, and has incurred the cost of installing scrubbers. Why, he asked, should the Midwest have to pay further?

A Canadian delegate pointed out that everyone will have to share the cost of solving the acid rain problem. He said that his region has 12 dead rivers and, although it produces no acid rain, the people are prepared to help pay.

Another Canadian delegate asked the Americans what the Canadian Special envoy, appointed pursuant to the agreement at the Quebec Summit to examine the acid rain issue, should push for in his meetings with the American Special Envoy. Two American delegates responded that he should push for: (1) reauthorization of the Clean Air Act with tough air pollution standards; (2) a program to protect lakes and rivers under the Clean Water Act; and (3) agreement on specific goals for the reduction of acid rain production in the United States. However, these delegates were not optimistic about the chances that the U.S. Administration would agree to these things, despite considerable support for them in the Congress. Several U.S. delegates stressed the importance of continuing Canadian pressure on the United States.

Several delegates mentioned that the experience of Europe—Sweden has 10,000 dead lakes because of acid rain—demonstrates the effects of acid rain and the need for action. However, as a Canadian delegate pointed out in closing the discussion, action is impossible in the absence of a social consensus to pay the cost through taxes.

Toxic wastes

In lieu of extensive discussion on toxic wastes, the committee decided to take advantage of the proximity of one of the continent's principal toxic waste sites, Love Canal, by making an on-site visit. The committee was extremely fortunate to have its tour led by one of the U.S. delegates, The Honorable John LaFalce, whose congressional district includes Love Canal. The New York State Department of Environmental Conservation also provided one of its top personnel to accompany the committee. The delegates greatly appreciated the assistance of these individuals, and of the Canadian staff, in making the last-minute arrangements.

The Love Canal toxic waste site was created when the Hooker Chemical Company disposed of 21,000 tons of chemical wastes at the site in the 1940's and 1950's. The operation was closed down in

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the 1950's, and the dumping site was covered and eventualy converted to residential use. Even a school was built on the premises. It was not until approximately 20 years later, in the mid-1970's, that the problem became apparent as the waste began seeping out of the ground and into basements. The delegates were impressed by seeing several acres of abandoned land and some 1,000 boarded-up homes. Even more sobering, however, was the realization that Hooker was only one of five companies engaged in the dumping of chemical waste in the area, some of which are still in operation. The delegates witnessed the seepage of toxic waste almost directly into the Niagara River.

The Canadian delegates expressed great concern and anguish over this continuing phenomenon, and questioned whether other sites, even closer to the river than Love Canal, could not be more effectively monitored. An American delegate explained that the superfund legislation, under which the cleanup of toxic waste sites is conducted, applies only to abandoned sites. When seepage is found on privately owned sites, it is necessary to undertake legal proceedings against the owner.

During the tour, the delegates visited an advanced toxic waste treatment plant. An American delegate cited treatment and disposal programs, principally through high-temperature incineration on land, as an important part of the U.S. effort. There is also an experimental program of disposal at sea. This delegate stressed the importance of finding legal ways to dispose of toxic wastes, because otherwise they will be disposed of illegally.

The same delegate pointed out that the superfund legislation must be reauthorized this year. The principal issue is whether there should be a toxic waste disposal fee, and who should pay it. Under current law the fee is paid by the approximately 600 prime generators of toxic waste and passed on to the companies' customers and on through the economy. Some think the waste end-user should pay. This delegate predicted that the current fee system would be retained, the fees increased, and cleanup stressed.

In pointing up the gravity of the toxic waste problem, the American delegate noted that 600 new chemicals enter the market each year. If chemical wastes are not captured before they enter the environment, there is a danger that these new chemicals will combine to form new toxic chemicals. If this happens in a lake such as Lake Superior, which turns over once every 1,500 years, the problem is essentially irreversible.

A Canadian delegate closed the discussion on a sober note by pointing out that the root of the toxic waste problem is that we do not know what to do about it. We can never be sure that some action that we take does not just move the problem somewhere else.

Consumptive uses of water

An American delegate voiced his concern over the possible effects of the water famine in the U.S. Southwest on the Great Lakes. If the Southwest stopped all uses of water, this delegate pointed out, it would still take 20 years to restore the water table there. Therefore, he said, there is bound to be increasing pressure for the diversion of Great Lakes water to the Southwest. The Great

Lakes represent 20 per cent of all the fresh water on earth; Lake Superior is the second largest body of fresh water in the world after Lake Baikal. This resource, the delegate argued, must be used carefully and not wasted. He said that the presumption should always be against diversion; the burden of proof should be on the diverter.

The Canadian delegates voiced general agreement with these points, although one pointed out that, as the desertification of North America progresses, it would not be possible to hold onto this resource forever.

Garrison diversion unit

The Garrison Diversion Unit is a large water project in North Dakota, which has been of concern to Canada because of the negative impact that Canada felt it would have on Canadian waters. These concerns led to the creation by Congress of the Garrison Special Advisory Commission in 1984, which advanced a new plan for the Garrison Diversion Unit with which the Canadian government has expressed satisfaction. There was, therefore, no extensive discussion of this issue in the committee. A Canadian delegate reported that the problem was being resolved satisfactorily from the Canadian point of view. Delegates from both countries agreed that these meetings had been instrumental in raising and resolving this issue, and that the issue could now be dropped from the agenda.

Flathead River

The United States is concerned that a proposed open-pit coal mine in British Columbia could pollute the Flathead River and Flathead Lake in Montana. The respective governments have referred this problem to the International Joint Commission for an 18-month study period, during which no construction will take place at the mine.

A U.S. delegate pointed out that this is the "flip side" of the Garrison diversion issue. In this case, it is the United States that wants to protect its waters, and the Canadians who are saying that U.S. water quality standards are too high.

Two Canadian delegates did argue that a "pristine" water quality standard is too high. Under that standard, no development could take place. Pollution, they said, cannot be eliminated; the problem is how to limit and handle it.

A U.S. delegate responded by saying that the problem is not one of creating pristine waters, but of not degrading the stream from its current quality. We should permit no backsliding, he said.

FOOD CRISIS IN AFRICA

Committees II and III met jointly to discuss the food crisis in Africa. A Canadian participant opened the discussion by asserting that famine has been a long-time problem in Africa on which donors have been slow to focus and respond until the news media brought public attention to the situation. The speaker reported that Canada had initally responded with $50 million in private relief contributions and about $35 million donated by the Canadian Government. Total public and private contributions for relief now

exceed $100 million (Canadian dollars). A close working relationship has developed between the government, the Canadian relief coordinator (David McDonald) [1] and the non-governmental organizations (NGOs) involved. The delegate concluded that the equivalent of a Marshall Plan is needed to fund longer-term development and redevelopment, reforestation, and to combat desertification.

A U.S. member agreed with the previous Canadian speaker on the scope of the problem in Africa. He stated that the problem was most acute now in the Sudan. The American then described the dramatic U.S. response to the crisis with the provision of more than $1.2 billion in food and other emergency aid. By way of placing the U.S. response in context, he noted that the United States is by far the largest food donor, providing more food aid to Africa than all other donors combined. He further explained that the U.S. response was accompanied by a commitment at the highest levels of the U.S. Government, as evidenced by the direct involvement of Vice President Bush in U.S. relief efforts. The American speaker expressed his personal agreement with the idea of a Marshall Plan approach for aid to Africa, although he acknowledged that such a concept is not the official policy of the United States. Lastly, he praised the work of the United Nations Childrens Fund (UNICEF) in its efforts to get U.S. communities to "adopt" needy areas in Africa and raise funds for local development projects in those areas. Other private voluntary organizations (PVOs) and church groups are involved in similar efforts to galvanize U.S. public support for relief and development in Africa.

A Canadian pointed to the developing concern and involvement of young people (many teenagers) in famine relief as encouraging. Similarly, members of the Canadian steel workers union have pledged one cent per hour per worker for African famine relief. That union is also trying, in collective bargaining, to get some matching commitment from corporations.

A U.S. delegate emphasized the essential need for a commitment by the African people and their governments to undertake necessary self-help actions. Among the critical areas where such self-help measures are needed are correcting land use practices which result in deforestation and relieving growing population pressure which is straining and degrading the environment in their countries. A second American agreed and emphasized the need for governments of some affected countries to abandon counter-productive and failed Marxist agricultural policies which contribute to the famine problem. Another Canadian participant asserted that the famine problem is pathetic, but he agreed with the caveats expressed by the two preceding U.S. speakers. He expressed skepticism about the idea of a Marshall Plan for Africa. He equated such comments with the kind of talk which was heard from outgoing European colonial administrators leaving their newly independent African colonies twenty-five years ago.

The circumstances are very different in Africa now than in post World War II Europe. In the latter case, the European governments wanted the Marshall Plan and wanted to work with the

[1] A former member of the Canada-United States Interparliamentary Group.

United States. They also had educated and trained indigenous personnel resources. The Canadian speaker strongly argued that external charity is not the answer to poverty. What is needed is more will on the part of the indigenous governments and peoples in the African countries to cooperate in helping themselves. He used Ethiopia as an example where the government and the disparate population groups involved lack the necessary will for such cooperation. He briefly recounted the historic rifts and animosity between Christian Amharis and Muslim peoples traditionally subject to Amharic rule in Ethiopia.

Another Canadian countered that many African governments are cooperating in relief efforts, regardless of their political complexion. That delegate said the Organization of African Unity (OAU) is also taking a stronger role in mobilizing relief efforts now. A second Canadian participant agreed. He noted that the implications of the Canadian relief coordinators report are that there is a need for continued diplomatic efforts to secure recipient government cooperation for relief activities in areas where the local populations are viewed as enemies of the regime in power.

Plenary

U.S.-Canadian Trade Relationship

The plenary session on the prospects for an enhanced U.S.-Canadian trading relationship was commenced by a presentation by a member of the Canadian delegation. He said that the momentum has never been greater for a free trade arrangement between the two countries. Only twelve years ago Canada thought it could go it alone—the "third option"—and reduce its economic ties to the United States. However, even the Trudeau Government came to realize that was not feasible.

The new government in Canada has attached high priority to enhancing and improving Canadian-U.S. trade relations. One option is a sectoral approach, but that has been written off because of the obvious difficulty of reaching agreement on the sectors. A second option, maintaining the status quo, is also not acceptable because of rising concern in Canada over non-tariff barriers and rising protectionist pressures in the U.S. Congress. The Reagan-Mulroney Trade Declaration in March gave high priority to reducing barriers to bilateral trade; the trade negotiators are to report back in six months. There is $113 billion of bilateral trade between the two countries. 85% of U.S. exports to Canada are manufactures, and Canada takes 25% of all U.S. manufactured exports.

Various reports in Canada over recent years have recommended a bilateral trade deal with the United States, including the three-volume report of the Foreign Relations Committee of the Canadian Senate. There is growing support—among industry, labor, think tanks—for a free trade agreement. Public opinion polls evidence support in every province, including in Ontario, where traditionally there has been the greatest reluctance to go that route. Twice before Canada and the United States almost sealed a bilateral trade agreement. The issue is as much economics as politics and

sovereignty. Canada has its own identity to protect, and Canada now has the self-confidence necessary to take the bold step.

An American delegate responded that under the U.S. system it is the Congress which controls external trade relations, not the President. The President currently has little trade negotiating authority, except for bilateral negotiations with Canada and Israel. Under the authority granted the President to negotiate bilaterally with Canada and Israel, the President cannot proclaim a negotiated arrangement, but under the expedited procedures provided in the statutory authority he can be assured of a clean vote without amendment in both houses of the Congress.

The United States is interested in a free trade arrangement with Canada. A sectoral agreement would be much more difficult to negotiate than a broad agreement. The United States will not push Canada for an agreement, as the perception of U.S. pressure might damage the climate in Canada, and the United States will go in whatever direction the Canadian Government feels is appropriate. The United States and Canada are the largest trading zone in the world. The U.S.-Canadian Auto Pact is an excellent example of the potential benefits of free trade, as it has led to greater employment in both countries and to a more stable, viable automobile industry than either country otherwise would have.

A Canadian member said that the new Progressive-Conservative Government is basing its policies and actions on the belief that: (1) trade can be important to solving the country's economic morass, and the United States obviously plays a critical role in that solution; (2) market forces are another key to that solution; and, (3) Canada should be more active globally. Canada does want a special North American relationship, but it is not sure that Americans do, especially considering that federal and state actions in the trade area frequently make little distinction between Canada and the real targets of those trade actions, such as Japan and the EEC. Reaching agreement on a free trade deal may be a question of timing—the Progressive Conservative Government has four more years in office, and there could be political constraints on how quickly action is possible in the U.S. political system.

Canada needs special consideration in the area of defense production sharing. The Canadian government will raise its defense contributions, but it needs to reequip. The Canadian defense industry is not strong and needs assistance. It is hoped that the United States will look carefully at (1) its small business set-aside, which is the one type of contract that Canadian firms are most capable of filling but from which they are excluded and (2) offsets, where Canada is seeking to be more than just a supplier and wants greater economic spinoffs.

An American delegate said that from his perspective, the timing is not good for discussion of U.S.-Canadian free trade because of the devastated state of U.S. agriculture. The depression in the Midwest does not create the climate necessary for talk of free trade. Americans are not blaming Canada for its difficulties, which result principally from the overvalued dollar, but the overall climate is just not amenable.

A Canadian reported that the McDonald Commission will recommend a free trade area with the United States. The effort at sector-

al agreements essentially has collapsed, because they will not work, but it was a useful way in which to get movement toward free trade started. If you count invisibles in the U.S.-Canadian trade statistics, the $20 billion U.S. trade deficit is reduced to $6 billion. In the past decade, Canada has still purchased $60 billion more of goods from the U.S. than the United States has purchased from Canada. Agriculture is a distinct sector and has been exempted from most free trade arrangements, because of climatic and regional variability. 90% of U.S./Canadian trade is free of tariffs or tariffs are below 5%, but a free-trade agreement is still important because of non-tariff barriers and the problem of Canada being hit by U.S. trade actions aimed at Europe and Japan. Such special consideration for Canada would be GATT-legal only within the context of a free trade agreement. The goal should be to make the U.S./Canada trade mechanism work better and more competitively.

Another Canadian said that any free trade arrangement must provide some interim mechanism for dealing with trade problems. Consideration must be given to industries that would be damaged by free trade through special transition measures to deal with employment displacement. In fact, the average transition period for most free trade agreements has been ten years, with some as long as fourteen years.

A Canadian member from Quebec said that his province is ready to accept a North American market. The textile industry in Quebec is not concerned with competition from the United States, but from other countries, and welcomes the opportunity to have a shot at the U.S. market.

An American noted that negotiations for a free trade agreement will be lengthy and complicated. There will be exemptions for some industries. It is important to commence the process as soon as possible, as it will take two to five years just to complete the negotiations. The U.S.-Israeli free trade agreement will be phased in over a ten-year period.

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